

# Office of Thrift Supervision *Annual Report*

## A Year of Continued Success *"Message from the Director"*

The year 1997 was one of continued financial success for the thrift industry, and one of change and challenge for the OTS. When I officially took over as Director on October 28, 1997, I became the first person appointed for a full term since Timothy Ryan left the agency in December 1992. I want to thank my immediate predecessors, Jonathan Fiechter and Nicolas Retsinas, for the exceptional job they did leading the agency on an interim basis – Jonathan for nearly four years and Nic for a year.

In the financials section of this report, we explain the factors that contributed to the record earnings of \$6.5 billion reported by the thrift industry regulated by OTS. The industry's strengths are broad and deep. Core earnings, which exclude one-time events, were solid. Capital reached a record level of 8.3 percent, and the number of problem institutions and nonperforming assets were very low. Other parameters of financial strength also were present, including good management, reduced overhead and the like. And both commercial and consumer lending grew, although both categories are still small relative to the assets in single family mortgages. The industry remains primarily a residential mortgage lender, with more than 50 percent of its assets in single-family loans.

We are concerned, of course, that the industry have its electronic house in

order come the turn-of-the-century. The industry is making progress in preparing for the Year 2000 conversion, but there is much to do. We are pushing conversion through a variety of means, and we are counting on the industry as a whole to attain compliance with a sufficient margin of time to correct any

*"Whatever the final outcome of the modernization debate, . . . it is critical that the government not take away the right of institutions to choose their most effective business strategies. . ."*

faults that are uncovered in the final testing phase. Congress recently granted the OTS statutory authority to examine third-party service providers, bringing us on a par with the bank regulatory agencies that have had the authority for some time. This added authority will be crucial as we near the millennium.

Since I joined the agency, the debate in Congress on financial modernization, including the future of the thrift charter and the OTS, has been in full voice. At the same time, we have had an increase in applications by well-known insurance and other companies interested in acquiring a federal thrift charter. The increase in applications reflects a market view that the federal thrift charter is an effective vehicle for the delivery of financial services. Whatever the final outcome of the modernization debate, we think it is critical that the government not take away the right of institutions to choose their most effective busi-

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April 30, 1998

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### Editor's Note:

Send your comments to William Fulwider, Director of Press Relations, Office of Thrift Supervision, 1700 G Street N.W., Washington, DC 20552.

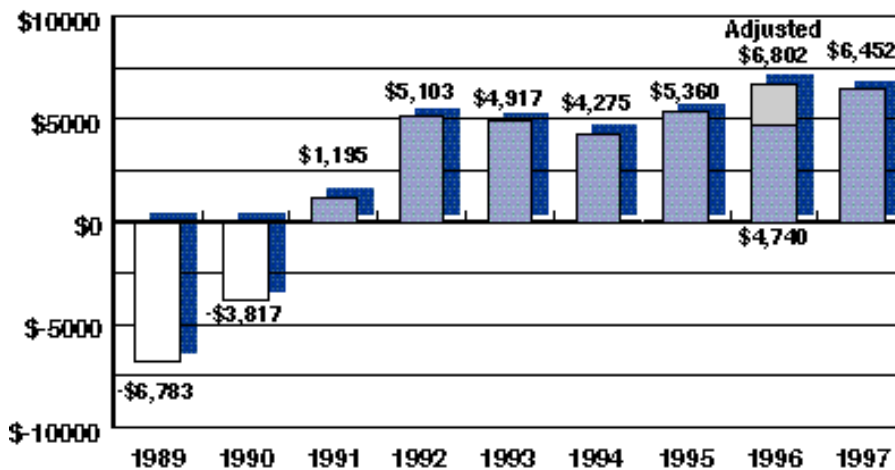
Financial data and analysis provided by Industry Analysis Division of Research & Analysis.

## Highlights of the Thrift Industry

## Message from the Director – continued

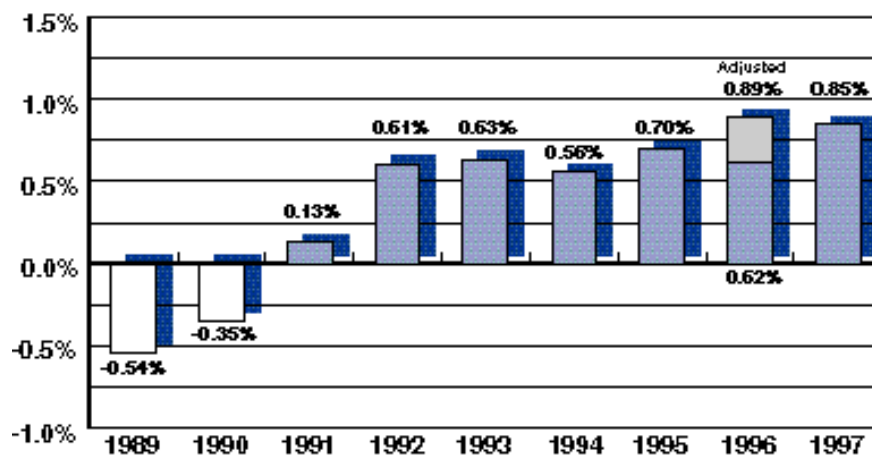
1997 Net Income Was A Record, ROA Was Best Since 1992

Net Income (\$ Millions)



Ellen Seidman, Director,  
Office of Thrift Supervision

Return on Average Assets



Adjusted data exclude the net SAIF special assessment of \$2.1 billion incurred in the third quarter of 1996

ness strategies, including remaining a community-based lender specializing in housing finance.

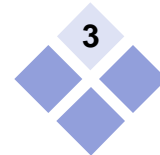
Notwithstanding the renewed interest in the charter, many more institutions exited from OTS supervision last year than entered. This con-

tinued a trend of the past several years. Departures have resulted from consolidation, mostly acquisitions by large regional commercial banks. This phenomenon was also experienced in the banking industry when many smaller commercial banks were acquired by expanding regional com-

panies. There were no thrift failures in 1997, the first time since 1959.

As the number of institutions regulated by the OTS continued to decline last year, however, industry assets actually increased for the first time since 1988, to \$777 billion. And we are beginning to see signs of a "reverse consolidation" in that OTS-regulated institutions are acquiring non-OTS-regulated banks and thrifts and others are converting to the federal thrift charter.

Steeped in local lending and dedication to its community, the thrift institution in late 1996 acquired new tools to expand its services. Thrifts may make commercial loans up to 20 percent of their assets, provided any amount over 10 percent is in small business loans – the backbone of the community's economy. All their consumer and educational loans also now count toward meeting the qualified thrift lender (QTL) test. Moreover, by joining coalitions of other institutions and community-focused organizations, thrifts can leverage their partici-



pation in low- and moderate-income housing and community redevelopment lending to reach more broadly into their communities. Many thrifts are already doing this. We encourage joint enterprise, and are building up our own resources to extend more outreach assistance in these areas.

Within the agency itself, we have made key changes and improvements to respond to important new developments. For the third year in a row, the OTS budget was in balance. We have developed a strategy for adding to our examiner corps in 1998 for the first time in several years. The additions will be modest, but we hope to recruit in areas, such as technology, where institutions are becoming more active, and the need for examiner expertise is increasing. We introduced a new electronic report of examination system, as well as an electronic loan data program. All our examiners were equipped with up-to-the-minute laptop computers to help them do a better job more efficiently.

Training took on renewed importance as a means of increasing productivity. The 1997 budget for training increased substantially over 1996, and the higher level continues this year as well. We are initiating changes that include improving benefits to make the OTS a better place to work and more competitive with other federal agencies to help attract and retain an excellent staff. We continued to reinvent our regulations to remove unnecessary burden on

the industry we supervise, and to make the regulations understandable and more consistent with those of the banking regulators.

Certainly, there are challenges ahead. We don't know the outcome of financial modernization legislation as yet. A number of the new applications raise important issues that we must decide, not only related to the Community Reinvestment Act (CRA), but also to the way an applicant organizes and plans to utilize the thrift in its business. The Year 2000 moves ever closer, and we must do all we can as a regulator to help the industry prepare for the new millennium. Beyond these challenges, we will watch closely how the industry deals with the current refinancing boom, what new lines of business thrifts may enter and how they manage them.

I hope you will find this report worthwhile. I look forward to meeting and talking with many of you in the months and years ahead to get the benefit of your views and insights. Thank you ■

Ellen Seidman  
Director

## Thrifts Post Record Earnings in 1997 "Industry's Financial Strength Broad-based"

**T**he OTS-regulated thrift industry earned a record \$6.5 billion in 1997, exceeding by 20 percent the previous record of \$5.4 billion in 1995. The 1997 figures included \$1.7 billion in the fourth quarter. The record was achieved despite large, one-time acquisition related charges at several institutions that were especially significant in the third quarter.

Although 1997 earnings exceeded 1996 earnings of \$4.7 billion, they actually were slightly lower than 1996 earnings of \$6.8 billion adjusted for the SAIF special assessment of \$2.1 billion that year.

Earnings in the 1992 through 1997 period represent six of the nine most profitable years in the history of the thrift industry. ROAs for 1997 of 85 basis points and for 1996 of 89 basis points, adjusted for the SAIF premium assessment, are the highest in 25 years and comparable to the 1962 ROA. For the 1992 through 1995 period, ROA averaged 63 basis points. (See Figure 1, page 4)

The average ROA for thrifts over \$1 billion in assets has improved significantly to 83 basis points from its 1992 through 1995 average of 50 basis points. Since many of the larger thrifts are based in California, their improved

earnings underscore the rebounding economy in that state.

### Higher Fee Income Bolsters Earnings

Higher fee income was the principal reason for the industry's improved performance, adding 58 basis points to the industry's ROA in 1997. (See Figure 2, page 4) That was more than 70 percent higher than the average of 34 basis points in the 1992 through 1995 period. Other sources of earnings strength last year included 1) a 28-percent decline in provisions for loan losses, to 26 basis

points from 36 basis points in the earlier period, reflecting continued improvement in asset quality; and 2) a slight reduction of 6 basis points to 221 basis points in non-interest expense, reflecting the full effect of reduced deposit insurance premiums in 1997 and continued efficiency gains.

Partly offsetting these improvements were higher taxes and lower "other non-interest income" – primarily gains on the sale of assets. The tax increase reflected, in part, the elimination of favorable tax treatment for bad debts in late 1996 and the expiration of net loss carryforwards at several large thrifts.

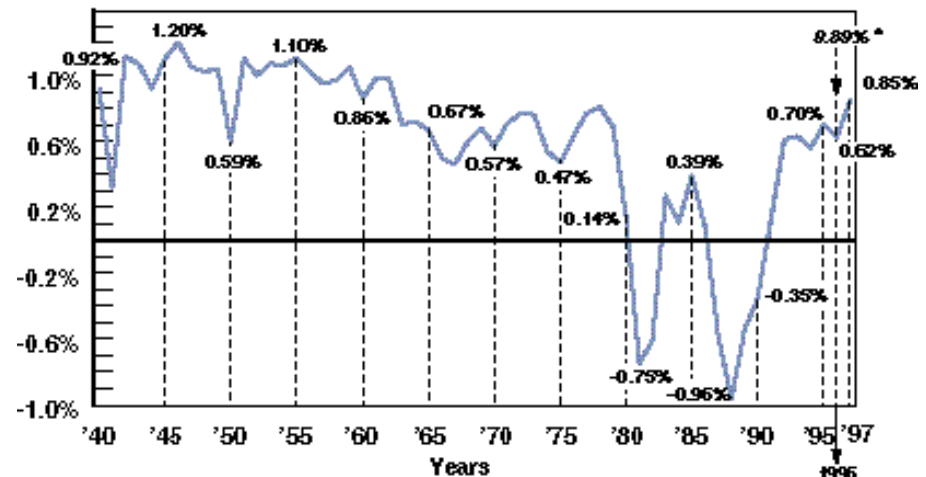
Growth in fee-generating activities – including loan servicing, mutual fund sales, credit card lending, servicing checking accounts, and administering trust assets – was largely responsible for the sharp increase in fee income. For example, the industry's aggregate portfolio of loans serviced for others increased 15 percent to \$448 billion over the past year from \$391 billion and was 49 percent higher than the average of \$300.5 billion for 1992 through 1995. Fee income from loan servicing added 12 basis points to industry ROA, up from an average 8 basis points earlier.

Total mutual funds and annuities sold by thrifts climbed 8.4 percent to \$10.4 billion over the past year. Sales were \$9.6 billion in 1996 and \$9.3 billion in 1994, the first year such data were collected. Fees produced from these sales contributed \$316 million to income in 1997, up from \$294 million in 1996. Trust assets administered rose to \$139.1 billion in 1997, a significant increase over the 1992 through 1995 average of \$9.4 billion.

Net interest income in 1997 of 287 basis points was unchanged from the earlier four-year average as increased interest income offset a rise in interest expense. Net interest income as a per-

Figure 1  
1997 ROA Was Historically Strong

#### Return on Average Assets



\* Adjusted data exclude the net SAIF special assessment of \$2.1 billion incurred in the third quarter of 1996

Figure 2  
Increased Fee Income Has Strengthened 1997 ROA

Components of ROA	Average '93 - '96	1997	Change
<b>ROA</b>	<b>0.63 %</b>	<b>0.85 %</b>	<b>0.22 %</b>
<b>Net Interest Margin</b>	<b>2.87 %</b>	<b>2.87 %</b>	<b>0.00 %</b>
Interest Income	7.00 %	7.28 %	0.28 %
Interest Expense	4.14 %	4.41 %	0.27 %
<b>Provisions for Losses</b>	<b>0.36 %</b>	<b>0.26 %</b>	<b>-0.10 %</b>
<b>Fee Income</b>	<b>0.34 %</b>	<b>0.58 %</b>	<b>0.24 %</b>
<b>Non-Interest Expense</b>	<b>2.27 %</b>	<b>2.21 %</b>	<b>-0.06 %</b>
<b>Taxes</b>	<b>0.36 %</b>	<b>0.48 %</b>	<b>0.12 %</b>
<b>Other Non-Interest Income (1)</b>	<b>0.43 %</b>	<b>0.35 %</b>	<b>-0.08 %</b>
<b>Extraordinary Items</b>	<b>-0.02 %</b>	<b>0.00 %</b>	<b>0.02 %</b>

1 Other Non-Interest Income primarily includes net gains on sale of assets, dividends on FHLB stock, and income from leasing office space.

Numbers may not sum due to rounding

cent of average assets rose to 7.28 percent in 1997 from the earlier period's average of 7.00 percent. A general shift into direct lending away from lower yielding investment securities and increases in higher yielding consumer and commercial loans resulted in the higher interest income. Interest expense increased to 4.41 percent assets from an

average 4.14 percent earlier. The continued decline in deposits as a funding source contributed directly to this rise in interest expense. Deposits declined to an historic low as a funding source, falling to 65.3 percent of assets, and were replaced with higher-cost Federal Home Loan Bank advances.



## Core Income Reflects Strength of 1997 Earnings

For 1997, core income reached a post-FIRREA peak of \$6.6 billion, or 87 basis points. That was 9 percent higher than the 80 basis points in 1996 and eclipsed the previous post-FIRREA high in 1996. Core income excludes most one-time transactions, such as restructuring charges and gains or losses from sales that inflate or depress thrifts' typical earnings. OTS defines core income as net interest income plus fee income, less overhead expenses, usually called general and administrative expense, and estimated income taxes of 35 percent.<sup>1</sup> Higher fee income and a slight improvement in overhead expenses strengthened the core ROA, and this indicates that the industry's 1997 earnings were fundamentally sound, grounded in permanent improvements rather than one-time, or transitory, gains.

Improvements in thrifts' operating and earnings efficiency also contributed to the higher core earnings. One measure of operating efficiency is the ratio of general and administrative (G&A) expense to net interest income and fee income. Since this measures the percentage of gross core earnings consumed by G&A, a lower ratio indicates more efficient operations. The industry's operating efficiency ratio continued to improve in 1997, declining 2.5 percent to 61.2 percent from 62.8 percent in 1996.<sup>2</sup> Since 1990, the thrift industry's operating efficiency has improved dramatically, dropping by 28.3 percent from 85.4 percent.

Another indication of thrifts' ability to generate improved earnings is their ratio of interest earning assets to interest costing liabilities, the "earnings efficien-

cy ratio." The ratio was 107.1 percent at year-end 1997, up slightly from 105.8 percent a year ago, but significantly higher than the 1990 ratio of 95.9 percent. The improvement is primarily due to lower levels of non-earning assets, such as repossessed assets, re-deployment of funds from cash and non-earning assets into loans, and higher levels of capital. The increased earnings efficiency ratio has helped stabilize net interest income despite a flattening yield curve.

## Capital Levels Remain Strong

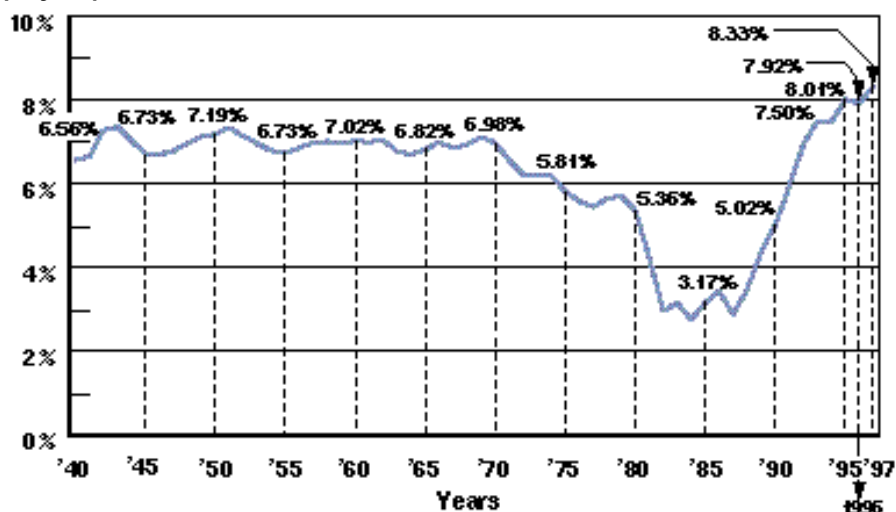
At the end of 1997, the equity capital ratio for the industry climbed to a record 8.33 percent, breaking the prior record of 8.18 set in the third quarter. For an historical perspective, the equity capital ratio held steady at about 7 percent for the 30-year period between 1940 and 1970, then dipped to just over 5 percent in 1980. (Figure 3) High interest rates

and inflation decimated thrifts' earnings and capital in the early 1980s, causing the capital ratio to drop to approximately 3 percent. After a short-lived recovery in the mid-decade, capital was rocked again in the late 1980s, this time by credit losses. With the closing of weak thrifts in the early 1990s, the industry's capital position strengthened rapidly. The steep rise in the industry's capital ratio as weak thrifts were closed highlighted the drag on earnings and capital levels by the weak and failing institutions at that time.

By 1990, the industry's capital ratio had returned to 5 percent, meeting the current "well-capitalized" standard. By 1993, capital exceeded 7 percent, and since 1995, has averaged above 8 percent, or 60 percent above the well-capitalized level. A slight dip in the industry's capital ratio in 1996 reflected payment of the SAIF special assessment during the third quarter that year.

Figure 3  
Equity Capital Ratio is at a Record Level

### Equity Capital Ratio



<sup>1</sup> The estimated tax rate of 35 percent approximates the industry's average tax rate over the past five years. The one-time special assessment was excluded from overhead expense for 1996.

<sup>2</sup> OTS' definition of operating efficiency differs from that used by the FDIC for the commercial banking industry. In general, using the FDIC definition of operating efficiency results in more favorable ratios.



The industry's fourth quarter tier 1 leverage capital ratio of a record 7.59 percent exceeded the previous high of 7.56 percent set in June 1996, the quarter before the SAIF special assessment expense. Similarly, thrifts' tangible equity ratio of 7.58 percent of adjusted tangible assets surpassed the previous record of 7.56 percent, also set in June 1996. The risk-based capital ratio of 14.59 percent did not match the record of 15.17 percent in March 1996, as a move away from investment securities into direct lending accounted for this slight decline. Nonetheless, the ratio remains well above the 10 percent requirement for well-capitalized status.

Virtually all thrifts, 97.4 percent, met or exceeded well-capitalized standards at the end of 1997. More than 90 percent of the industry met or exceeded that standard for the last 18 consecutive quarters, and more than 95 percent met or exceeded the standard for the last 10 quarters, despite the SAIF premium assessment. At year-end 1997, 31 thrifts were in the adequately capitalized category, and just one was undercapitalized.

### Number and Assets of Problem Thrifts Hit Post-FIRREA Lows

At year-end, only 18 institutions, or 1.5 percent of the industry, were listed as problem thrifts, those with CAMEL ratings of "4" or "5" on their most recent safety and soundness examination. There were 23 problem thrifts in the third quarter and 29 a year ago. Aggregate assets of problem thrifts fell to \$1.6 billion, or 0.2 percent of industry assets, from \$5.4 billion at year-end 1996.

The number of problem thrifts and their combined assets reached post-FIR-

REA lows, and their financial condition was substantially stronger than that of problem thrifts in the early 1990s. For example, the average equity capital ratio of problem thrifts at the end of 1997 was 7.49 percent, compared with 3.34 percent at the end of 1991.

### Troubled Assets Fall to Lowest Measured Level

Troubled assets fell to their lowest level since 1990 when the measure of asset quality was first used in the thrift industry.<sup>3</sup> They totaled \$7.8 billion, or 1 percent of total assets, at year-end, down from \$8.7 billion, or 1.13 percent, a year ago. The numbers are significantly affected by two "workout specialist" thrifts that purchase already delinquent loans at a discount and hold them temporarily while performing loan workouts. Hence, a large portion of these thrifts' assets are, by definition, troubled. Together, these two thrifts held \$1.2 billion in troubled assets at the end of 1997 – approximately 16 percent of the industry's total troubled assets.

Declines in both repossessed assets and noncurrent loans were the reasons for the reduction. Repossessed assets fell to \$1.8 billion, or 0.23 percent of total assets, at year-end 1997 from \$2.1 billion, or 0.28 percent, a year ago.

Noncurrent loans also declined, but their quarterly levels fluctuated throughout 1997 largely due to the timing of loan purchases and sales by the workout specialist thrifts. Noncurrent loans declined to \$5.9 billion, or 0.77 percent of total assets, at the end of 1997 from \$6.6 billion, or 0.85 percent, in 1996. Noncurrent loans peaked at \$6.7 billion, or 0.88 percent, in the first quarter of 1997.

### Noncurrent Consumer Loans Increase, Other Noncurrent Loans Decline

Thrifts' noncurrent loan rates for most of the major types of loans – single-family mortgages, consumer, commercial, and multi-family and non-residential mortgages – have trended downward since the early 1990s. (See Figure 4, page 7) The rates for single-family mortgages (1.11 percent), commercial loans (1.10 percent), and multi-family/non-residential mortgage loans (1.11 percent) are at eight-year lows. The exception was consumer loans. Although the consumer loan rate for 1997 of 0.97 was lower than the 1990 rate, it has risen from its low mark in 1994, and was higher than the 1996 rate. Still, the consumer rate was lower than those for the other loan types.

### Noncurrent Rate Highest for Credit Card Loans

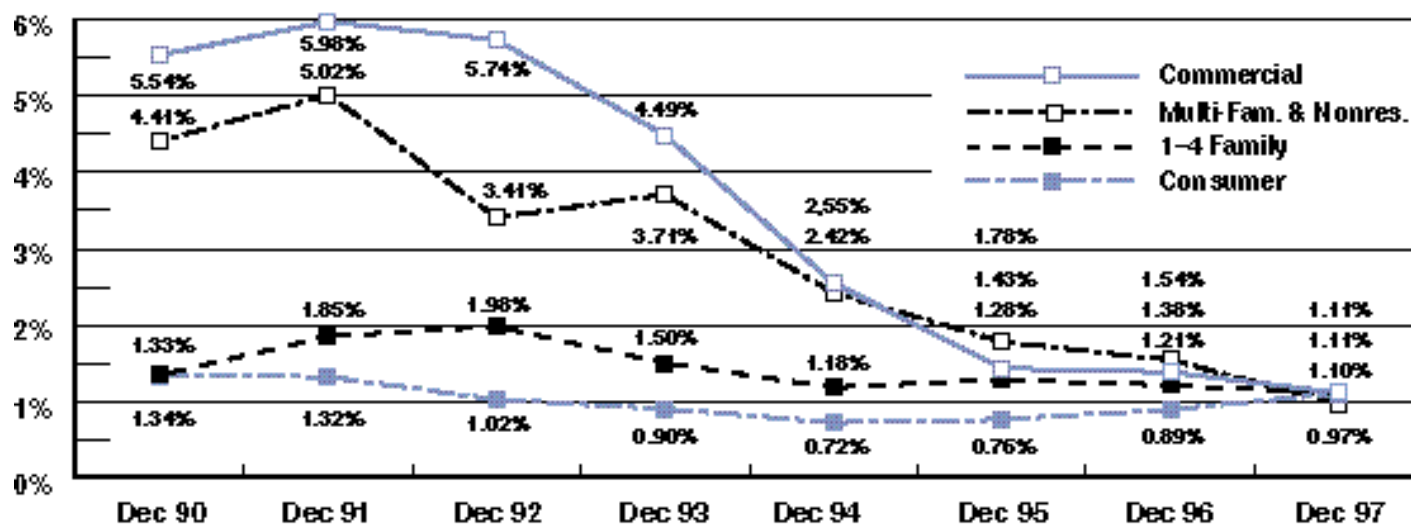
Beginning in the first quarter of 1997, detailed delinquency data became available for each thrift consumer loan type. Noncurrent loan rates rose during the year for all consumer loan types except home equity loans, but had only minor impact on thrifts' troubled assets ratio because of the relatively small amount of consumer loans held by thrifts. At the end of 1997, total consumer loans represented 5.8 percent of thrift assets. Auto loans were the largest type held by thrifts, although only 1.54 percent of assets, followed by credit card loans at 1.24 percent of assets.

Credit card loans had the highest noncurrent rate of consumer loans the end of 1997 with a rate of 1.77 percent, compared with 1.68 percent in March 1997. Education loans' noncurrent rate followed at 1.67 percent at year-end

<sup>3</sup> Thrifts' troubled assets are the sum of noncurrent loans and repossessed assets. Noncurrent loans measure loans that are seriously delinquent and are defined as those loans 90 days or more past due plus loans in non-accrual status.

Figure 4  
Noncurrent Loan Rates Continue to Decline Except for Consumer Loans

*Noncurrent Loans (Percent of Loan Category)*



Data after 1995 are net of specific valuation allowances

1997. Other year-end rates were: home improvement loans, 0.90 percent; auto loans, 0.80 percent; loans secured by deposits, 0.55 percent; home equity loans, 0.54 percent; and mobile home loans, 0.47 percent.

Despite the overall economy, the increase in noncurrent consumer loans warrants attention. Moreover, the average consumer loan charge-off rate has risen to 45 basis points in 1997, from 34 basis points in 1996 and 26 basis points in 1995, mirroring the increase in noncurrent consumer loan rates. Charge-off rates are an important indicator of asset quality for uncollateralized consumer loans. Charge-offs occur when a loan or portion of a loan becomes uncollectible. The OTS will continue to monitor closely the rise in noncurrent consumer loans together with increased charge-off rates, especially as thrifts diversify their loan portfolio.

### Sensitivity Measure Improves – Still Above 1995 Levels

OTS uses its Interest Rate Risk Model to monitor thrifts' interest rate risk by measuring change in a thrift's economic value – the net present value (NPV) of its current net worth – due to changes in interest rates. The decline in a thrift's economic value, measured as a percentage change from a 200-basis-point movement in interest rates, reflects the sensitivity of the thrift to interest rate fluctuations. The resulting economic value after the change is the "post-shock NPV" of the thrift and indicates the thrift's ability to absorb or withstand future interest rate changes.

The industry's median sensitivity measure improved in the fourth quarter of 1997, falling 6 percent to 158 basis points from 168 basis points in the third quarter and 14 percent from 183 basis points in 1996. (See Figure 5, page 8) Despite the recent decline, the median sensitivity measure at the end of 1997 remained above 1995 levels.

The improvement in sensitivity in the fourth quarter was especially pronounced for those thrifts most sensitive to interest rate risk – the group comprising the 90th percentile. Those highly sensitive thrifts achieved a decline of 5.1 percent from the third quarter to 318 basis points.

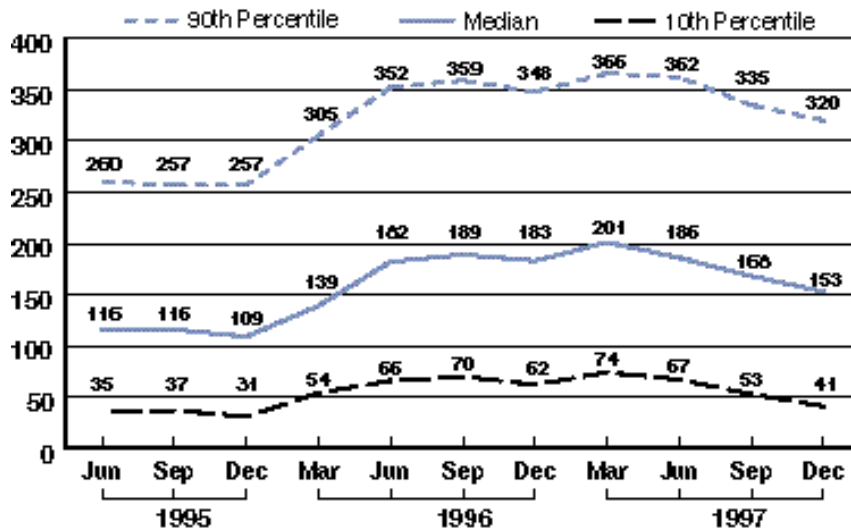
### Strong Capital Allows Thrifts to Absorb Rate Shocks

Because a low post-shock NPV for a thrift indicates significant exposure to further interest rate changes, current OTS policy has established a 4 percent threshold for post-shock NPVs. Thrifts with post-shock NPVs below that level are an immediate supervisory concern.

Strong capital has allowed thrifts to absorb projected interest rate shocks and still have very solid NPV. Thrifts' fourth quarter median post-shock NPV measure was 10.4 percent, unchanged from the third quarter, but higher than 9.7 percent at the end of 1996. Even thrifts with the lowest amounts of post-

Figure 5  
Sensitivity to Interest Rate Risk Has Declined Recently But Remains Higher Than in 1995

*Sensitivity Measure in Basis Points\**



\* Preliminary fourth quarter data.

shock NPV – those in the 10th percentile – had post-shock NPV of 6.8 percent at the close of 1997. This was unchanged from the third quarter, but higher than

the 6.0 percent at the end of 1996, and well above the threshold of supervisory concern.

## Consolidation Continues in Industry

The number of thrift institutions regulated by OTS has continued to decline. From 1993 to 1997, OTS-regulated thrifts fell by 454 to 1,215 institutions, 27 percent below the 1,669 institutions at the end of 1993. Consolidation has accounted for the bulk of the decline, because there were no thrift failures in 1997 and only one in 1996. The last year of zero failures was 1959. (Figure 6)

Two distinct consolidation trends are at work. In 1993 and 1994, most thrift exits were by merger among thrifts and conversions of OTS-regulated thrifts to state-chartered savings banks. These “intra-industry” consolidations accounted for 61 percent of the total exits. But from 1995 on, “inter-industry” consolidation – bank acquisitions of thrifts and thrift conversions to commercial banks – was the primary factor. Inter-industry consolidation has gradually increased to 65 percent of exits in 1997 from 48 percent in 1995.

Figure 6  
Most Thrift Exits, During the Past Three Years, Were Due to Acquisitions by Commercial Banks

Exits of OTS-Regulated Thrifts	1993	1994	1995	1996	1997
<b>Failures</b>	<b>8</b>	<b>2</b>	<b>2</b>	<b>1</b>	<b>0</b>
<b>Conversions</b>					
To Commercial Banks	18	17	13	10	32
To State-Chartered Savings Banks	98	49	16	20	17
<b>Total Number of Conversions</b>	<b>116</b>	<b>66</b>	<b>29</b>	<b>30</b>	<b>49</b>
<b>Acquisitions</b>					
By Commercial Banks	39	44	49	46	60
By State-Chartered Savings Banks	3	2	1	3	1
<b>Total Number of Acquisitions by Non-OTS Regulated Institutions</b>	<b>42</b>	<b>46</b>	<b>50</b>	<b>49</b>	<b>61</b>
<b>OTS Thrift-to-Thrift Mergers</b>	<b>37</b>	<b>32</b>	<b>43</b>	<b>36</b>	<b>28</b>
<b>Voluntary Dissolutions</b>	<b>10</b>	<b>3</b>	<b>5</b>	<b>3</b>	<b>3</b>
<b>Total Exits</b>	<b>213</b>	<b>149</b>	<b>129</b>	<b>119</b>	<b>141</b>
<b>Total Entrants</b>	<b>13</b>	<b>24</b>	<b>23</b>	<b>18</b>	<b>21</b>
De Novo	12	16	3	6	11
Other	1	8	20	12	10
<b>Net Decline</b>	<b>200</b>	<b>125</b>	<b>106</b>	<b>101</b>	<b>120</b>



Despite the substantial decline in numbers of OTS-regulated institutions over the past four years, industry assets have remained relatively stable since 1993 at approximately \$770 billion. Assets actually grew by slightly less than 1 percent in 1997, the first year of asset growth since 1988. The stability of the industry's assets in recent years reflects strong underlying asset growth by remaining thrifts sufficient to offset departing assets.

Both asset growth and exits in 1997 were the highest of the last five years. Assets of \$56.2 billion left OTS regulation, an increase of 60 percent over the \$35.2 billion that departed in 1996 and 33 percent higher than the \$42.2 billion average from 1993 through 1996. The increase in 1997 resulted primarily from commercial bank acquisitions of several large thrifts. (Figure 7)

But asset growth by OTS-regulated thrifts of \$63.5 billion last year more than offset departing assets. The principal components of growth have been internal growth, assets from acquired

commercial banks and non-OTS thrifts, and assets of de novo thrifts.

Internal growth, which excludes assets involved the acquisition of another OTS-regulated thrift, was \$47 billion in 1997, compared with \$28.9 billion in 1996.

Assets from acquired commercial banks and non-OTS thrifts jumped to \$12.6 billion from \$3.1 billion in one year, making 1997 by far the most active of the past five years for acquisitions of banks and non-OTS thrifts by OTS-regulated institutions.

Assets of newly chartered thrifts boosted industry assets by \$3.9 billion in 1997, an increase from \$1.7 billion in 1996. Conversions of several large existing state-chartered savings bank/commercial banks to the federal thrift charter plus conversions of other existing entities to federal thrifts in 1997 produced \$3.5 billion, or 96 percent of the total for all new entrants. In contrast, start-up thrifts are generally quite small and added just \$13.6 million in 1997.

## Thrifts Increase Direct Lending and Diversify Loan Portfolio

Over the past four years, the thrift industry has increased direct lending to consumers and small businesses while continuing its mortgage specialist role, particularly for single-family mortgages. In that period, total industry assets remained virtually the same on average, but the asset portfolio changed as single-family mortgages, consumer loans, and small business/commercial loans replaced investment securities.

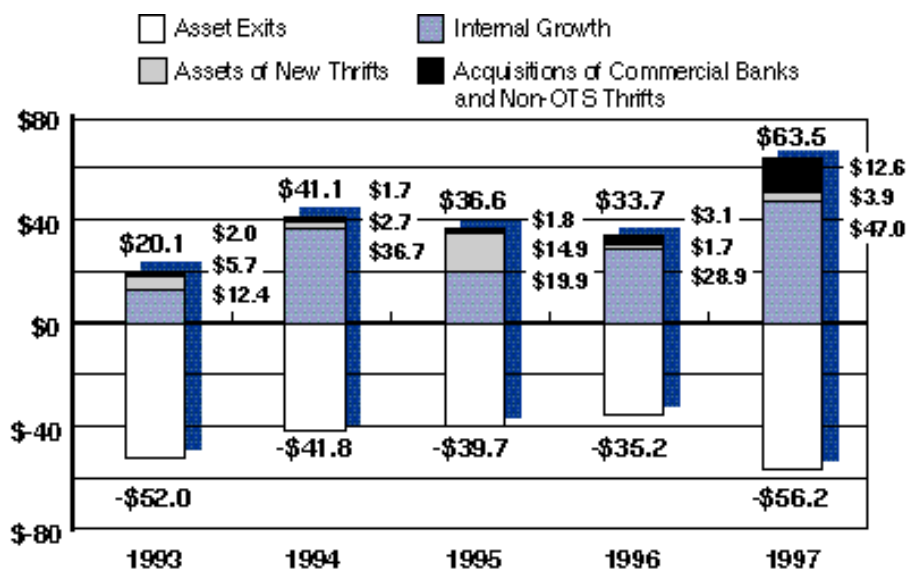
Small business-commercial loans were the fastest growing thrift asset, increasing at an average annualized rate of 22 percent over the four years to \$11.5 billion at the end of 1997 from \$5.2 billion four years ago. The growth derived from the increase in the number of thrifts offering such loans, greater emphasis on small business-commercial lending, and thrifts' acquisitions of commercial banks.

Consumer loans rose at an average annual rate of 6.1 percent to \$44.9 billion at the end of 1997 from \$35.4 billion four years earlier. Within the consumer loan category, auto loans were by far the fastest growing type. Their average annual growth rate of 16.3 percent drove the overall increase in consumer loans, accounting for 57 percent of the \$9.5 billion increase. Most of the increase in auto loans resulted from the purchase of an auto lending business and acquisition of a large portfolio of auto loans.

Other significant increases were closely related to residential home lending, including: mobile home loans (\$1.5 billion, 11 percent average annual rate); home improvement (\$1.0 billion, 11.4 percent); and home equity loans (\$0.7 billion, 2.7 percent). The industry experienced little growth, or slight declines, in all other consumer loans. Credit card loans increased slightly to \$9.6 billion in 1997 from \$9.2 billion in 1993. However,

Figure 7  
Acquisitions of Commercial Banks and Non-OTS Thrifts Supplemented Internal Thrift Asset Growth in 1997

### Primary Components of OTS-Regulated Industry Asset Changes (\$Billions)



two thrifts had significant sales of credit card loans in the fourth quarter of 1997 that reduced the year-end balance.

Single-family mortgages remain the primary asset held by thrifts. As of December 31, 1997, mortgages represented 50.3 percent of industry assets, an increase from 49.9 percent at the end of 1996 and 45.8 percent four years ago. (Figure 8) Although the industry has consistently held the majority of its assets in single-family mortgages and mortgage-backed securities, 1997 marked the first time since 1983 that the industry held the majority of its assets in direct single-family mortgages.

The composition of thrifts' 1997 single-family mortgage portfolio is quite different from that of the early 1980s, however. It is now more diversified and less interest rate sensitive. Adjustable rate mortgages (ARMs) represented 65.1 percent of the industry's single-family mortgages and 30-year fixed rate mortgages 18.1 percent at the end of 1997. In stark contrast, just 5.8 percent of the industry's single-family loans were in ARMs at the end of 1980, and 94.2 percent were in long-term fixed-rate mortgages. Thrifts' 1997 single-family loan portfolio was further diversified

into 15-year mortgages (11.7 percent of single-family loans) and balloon mortgages (5.1 percent).

The proportion of thrifts' single-family mortgages held in ARMs at the end of 1997 was down slightly from 65.8 percent in 1996. Part of the decline occurred because of the fourth-quarter acquisition of two large mortgage banking firms whose business concentrated on originating long-term fixed-rate mortgages that are easily sold in the secondary market. Although the percent of long-term fixed rate mortgages in thrift mortgage portfolios increased slightly from 16.1 percent a year ago, the proportion of long-term fixed-rate mortgages in 1997 was still below the 1993 level of 18.6 percent.

Fifteen-year and balloon mortgages comprised the remainder of the industry's residential mortgage loans at 7.2 percent and 3.1 percent, respectively, of industry assets at the end of 1997. In 1996, 15-year fixed-rate mortgages comprised 7.9 percent of industry assets and balloon mortgages 3.3 percent. The decline in these two loan types during 1997 resulted from the purchase of the two large mortgage banking firms in 1997.

## Deposits Continue Decline as Funding Source

Assets funded by insured deposits declined to an all-time low of 54.9 percent last year from the previous low of 58.4 percent a year ago. This continued the downward trend of insured deposits as a funding source for thrifts that resumed most recently in 1992. Insured deposits' share of total thrift funding has been on a long downward trend since the mid-1970s, except for an interruption from 1987 to 1992. The current decline can be traced to several factors, including the strong stock market, the popularity of mutual funds, and the growth of tax-deferred employer savings and/or 401(k) plans. (See Figure 9, page 11)

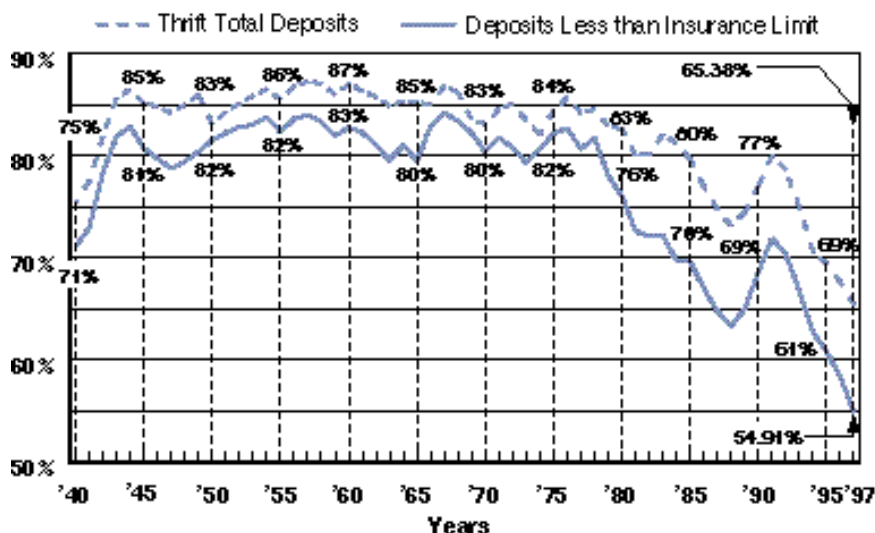
Hardest hit have been certificates of deposit (CDs) with original maturities of more than three years. These longer-term CDs fell to 5.3 percent of thrift assets at the end of 1997 from 6.3 percent a year ago and 8.3 percent in 1993. Significant erosion also occurred in passbook accounts which have fallen to 8.2 percent of assets at December 1997 from 8.4 percent one year ago and 12.1 percent at the end of 1993. Interest-bearing transaction accounts (money market deposit accounts and interest-bearing

Figure 8  
Single-Family Mortgages Still Dominate Industry Assets, Although Growth Rates Were Highest for Small Business/Commercial and Consumer Loans

	December 1993	December 1997	December 1993 to December 1997	
			Change	Average Annualized Growth Rates
<b>Total Assets</b>	<b>\$774.8</b>	<b>\$776.6</b>	<b>\$1.8</b>	<b>0.1%</b>
<b>Total Loans</b>	<b>503.7</b>	<b>539.7</b>	<b>36.0</b>	<b>1.7%</b>
<b>1-4 Family Mortgage Loans</b>	<b>354.8</b>	<b>390.8</b>	<b>36.0</b>	<b>2.4%</b>
Construction Loans	12.7	11.3	-1.4	-2.9%
Other Mortgages	95.7	81.2	-14.5	-4.0%
<b>Small Business/Commercial Loans</b>	<b>5.2</b>	<b>11.5</b>	<b>6.3</b>	<b>21.9%</b>
<b>Consumer Loans</b>	<b>35.4</b>	<b>44.9</b>	<b>9.5</b>	<b>6.1%</b>
Mortgage Pool Securities	119.5	103.8	-15.7	-3.5%
Investment Securities	108.6	85.1	-23.5	-5.9%

Figure 9  
Thrifts' Decline in Smaller Deposits Offset by Growth in Larger Deposits and FHLBank Advances

#### Percent to Total Assets



— Historical maximum insured deposits are as follows: 1934-'49, \$5,000; 1950-'65, \$10,000; 1966-'68, \$15,000; 1969-'73, \$20,000; 1974-'79, \$40,000 (non-government accounts), \$100,000 (government accounts); 1980-'97, \$100,000.

demand deposits) fell slightly to 12.1 percent last year, but are significantly below their 1993 share of 15.9 percent.

Shorter-term CDs with original maturities under three years have fluctuated between 35 percent and 37 percent of assets for the past five years. During this time, escrow accounts have averaged 0.8 percent of thrift assets. Non-interest bearing checking accounts, while still a relatively minor funding source for thrifts, have risen steadily since 1993 to 2.8 percent of thrift assets at the end of 1997.

To replace the insured deposit losses, thrifts have turned to uninsured deposits with balances over \$100,000, and borrowings, primarily Federal Home Loan Bank ("FHLB") advances. Total borrowings, including reverse repurchase agreements and other borrowings as well as FHLB advances, funded 23.8 percent of the industry's assets at year-end 1997, up from 22.5 percent in 1996 and 15.5 percent in 1993.

FHLB advances reached a record 15.3 percent in 1997 from 13.4 percent in 1996 and 9.8 percent in 1993. Although these large deposits and FHLB advances impose higher interest costs on thrifts, they offer a possible advantage by allowing thrifts to lengthen the maturity of their liabilities and, thereby, reduce their sensitivity to interest rate changes.

Uninsured deposits increased to 10.5 percent of assets at the end of 1997 from 9.2 percent one year ago. These deposits peaked at 11.5 percent in 1984 and generally declined to 7.8 percent in 1994 before starting up again.

### Challenges for Thrifts in 1998

With record earnings and capital and historically low troubled assets, the thrift industry is in sound financial condition. Thrift managers have taken advantage of the generally favorable economic conditions over the past five years to strengthen their institutions. Notwithstanding the industry's finan-

cial condition, however, several major areas require continued attention from thrift managers and regulators in 1998.

**1. Prudent Expansion of Assets.** The industry has succeeded so far in maintaining a stable net interest margin in the face of a flattening yield curve by expanding direct lending, reducing troubled assets, and diversifying into higher yielding loan products. The expansion in consumer and commercial loans has allowed thrifts to maintain interest income growth while improving their ability to meet the needs of their communities. A key challenge for the industry will be its ability to continue to respond to growing economic pressures with efficiency improvements and prudent loan expansion.

### 2. Keeping an Eye on the Future.

Economic conditions and consumer demand change. The current flat yield curve will change with interest rate changes. Consumer preferences will most likely shift to new loan and investment products. Preferences for the delivery of products will also likely change. The very favorable economic conditions enjoyed over the past seven years cannot go on forever.

Often "the future" seems only as far away as the next quarter's results. However, the operational impact from longer-term, as well as possible unexpected, changes must be assessed and should be continually incorporated into lending and investment decisions.

### 3. Year 2000 System Conversion Problem.

One of the most critical challenges in 1998 is ensuring that systems used in all operations are converted to adequately and accurately deal with the year 2000. Costs will be incurred in remedying this problem. However, the costs of not remedying this issue – lawsuits, borrower/depositor dissatisfaction, and costs to correct errors, to name a few – would dwarf the costs of resolving the Y2K problem in a timely manner ■

## Annual Report

*“Thrift Charter Attracts New Applicants”*

Renewed interest in the federal thrift charter was a highlight of 1997, especially with the application filings by a number of companies and several credit unions. Among the 21 net new thrift entrants in 1997 were two under insurance company holding companies – the Principal Mutual Life Insurance Company and the Travelers Group – and four converted credit unions. At year-end, 31 applications for the federal thrift charter were pending.

Renewed interest in the charter continued into 1998. During the first three months of 1998, approximately a dozen insurance companies had applications pending, some for full service charters and some for trust services only. Among them were the Allstate Corporation, American International Group, State Farm Mutual Automobile Insurance Company, the Equitable Companies, Inc., and the Hartford Group. Applications also were submitted by GE Capital Corporation and the brokerage firm, Paine Webber Group, Inc., among others. One of the more unusual applicants was Hillenbrand Industries, Inc., which is the nation's leading maker of caskets.

Mixing commerce and commercial banking has been at the heart of the financial modernization debate for two decades. The unitary thrift holding company permits commercial enterprises to own thrifts, which are predominately consumer-based institutions with very limited commercial lending authority. Such integration has been a characteristic of the thrift holding company charter for many years. Although one or two of the late 1980s thrift industry failures involved diversified holding companies, the agency's experience since passage of the Financial Institutions Reform, Recovery and Enforcement Act (FIRREA) and OTS' establishment in 1989 has been largely free of serious problems. It must be recognized, however, that this experience has been during a period of economic prosperity.

In April 1997, the agency's research arm published the first of two studies on thrift holding companies. That paper examined the aggregate performance of holding companies

controlling, at that time, more than 650 thrift institutions with \$630 billion in assets. The study showed the diversity of thrift ownership and, generally among the larger ones, the diversity of their activities. For the most part, however, thrift holding companies either limit their activities to those closely related to running a thrift or to a few select diversified operations. The analysis found no systemic problems arising from the scope of permissible activities of holding companies and their affiliates.

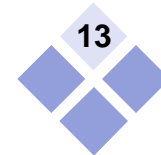
A second holding company paper, published in January 1998, examined in greater detail the relative economic importance of non-banking activities in holding companies. About 40 percent of the holding companies in the study reported minimal reliance on revenues from non-banking activities,



*Thrift institutions remain primarily single family mortgage lenders with more than half their assets industry-wide in residential mortgages. Home under construction in Spotsylvania County, Virginia, is being financed by Fredericksburg Savings and Loan, FA.*

while 55 percent reported that these activities were a dominant source of revenue. The study also showed that of nearly 900 total enforcement actions taken by the OTS during a four and a half-year period ending in mid-1997, only 4.5 percent were against holding companies, and only 3 actions total involved holding companies with non-banking activities.





Nonetheless, the increasing complexity of these alliances raises challenging issues for the OTS. Several applicants propose to cross market banking and insurance or other products and services, which heightens the sensitivity over transactions with affiliates, conflicts of interest, disclosures about the differences between noninsured and insured products, consumer protection issues, and other statutes and regulations, including compliance with Community Reinvestment Act (CRA) requirements.

The agency carefully analyzes each applicant's business plan, including the purpose of the proposed thrift, its proposed capitalization and management, its value to the community, the safety and soundness of its operations and how it will comply with all applicable laws and regulations covering the Community Reinvestment Act and consumer protection. Without a credible business plan, the charter application will not succeed. There are no "shelf charters" at the OTS. If the need arises, as it did in certain cases in 1997, the agency will impose conditions designed to make certain that both the holding company and thrift comply with the law and that proper disclosure is made in any and all transactions as required. In the case of CRA, in particular, defining the assessment area and applying the law have been relatively simple to date because the new operations are starting out on a small scale. But as operations grow and expand over time, ensuring CRA compliance and safety and soundness will become more complicated. Some of these issues are being addressed on an interagency basis to determine whether any regulatory changes are needed.

The staff in the OTS region where a proposed thrift would operate work closely with the applications, policy, compliance and legal staffs in Washington in analyzing and making recommendations in these charter cases. There must be agreement that the examiners and supervision staff in the region can work with the conditions, if any are imposed.

### Year 2000 Climbs on Priority Scale

One of the most important challenges facing the thrift industry and the agency is preparing for the Year 2000 computer changeover. During the second half of last year, OTS examiners conducted special off-site examinations of OTS-regulated institutions to assess thrift management's awareness of the Year 2000 issues and their commitment to resolving those issues in a timely manner.

While the industry generally is making good progress, about one-fourth of the industry appeared to be lagging in preparing for the approaching changeover. Some smaller institutions were having more difficulty than larger ones. Toward year-end, the agency began a second round of examinations to be finished by June 30, 1998. These on-site examinations are initially focusing principally on the thrifts that appear to be behind schedule.

The OTS also joined with the other banking regulators in examining service providers and software vendors. Until recently, the OTS lacked the statutory authority of the banking agencies to examine service providers, but that changed in March 1998 with passage of a new law giving the OTS the same authority. This strengthens the agency's hand in dealing with the thrifts and the servicers that supply their computer needs.

*"... the combination of examination efforts, active outreach, supervision, and monitoring should ... get the industry to the finish line of Year 2000 compliance. . . "*

The agency has taken a number of steps to energize institutions to move forward as rapidly as possible on the inescapable changeover. Last May, the Northeast Region conducted a successful conference that attracted nearly 200 representatives of institutions and service providers. A follow-up conference focusing on testing will be held June 2, 1998, in New York City. During the summer of 1997, the OTS started a Year 2000 page on its Internet site that includes a checklist by which an institution can track progress toward compliance. The web page also contains "hot links" to other key web sites, such as the Federal Financial Institutions Examination Council (FFIEC) site where important and useful information on the Year 2000 may be found. Late in the year, the agency finalized plans for

a newsletter to disseminate information and guidance to thrifts on getting prepared. The newsletter – Millennium – began publication in January, and will continue monthly. It also is available on the OTS Internet web site.

The OTS named a Year 2000 national coordinator and set up contacts in each region to work with institutions on their compliance strategies and on resolving problems. Approximately 160 safety and soundness examiners were trained to review institutions' Y2K conversion plans and budgets. They join about 30 information systems examiners in this process.

The agency believes that the combination of its examination efforts, active outreach to the industry, supervision, and monitoring should minimize and contain problems and



work to get the industry to the finish line of Year 2000 compliance, which is the goal. To reach that goal, the OTS wants the industry to complete its computer remedial work by the end of this year and devote 1999 to testing and making necessary adjustments to achieve total readiness for the millennial changeover.

Last November, the OTS, along with other regulators, began a series of quarterly briefings for the staff of the banking committees of both the Senate and House on Year 2000 progress. In March 1998, the OTS received a generally favorable review of its Year 2000 efforts by the General Accounting Office (GAO) at a Senate Banking subcommittee hearing. Further hearings on progress are expected over the course of the conversion.

### Community Affairs Programs Expand

In 1997 the agency began shaping an expansion of its Community Affairs Program as thrift institutions have asked for help in becoming more active in community development initiatives targeted at under-served markets and individuals. A first step last year was to deploy community affairs fellows in three regions. Each has a strong background in the community to complement the regulatory expertise already there.

The agency plans to hire a Community Affairs Specialist in each region in 1998, giving each region two staff members, with experience in affordable housing or community development, doing community outreach. The Washington office has named a National Community Affairs Liaison and a program analyst to the existing compliance staff.

Basically, the outreach program has not changed from the goal of improving credit availability by encouraging safe and sound lending to those areas of greatest need. But several new initiatives took shape in 1997 and will be executed this year. For example, each of the regional staffs is looking at a specific area where thrifts could make a difference. One result of these initiatives will be a series of major conferences to be held this year. The Northeast Region will host a program on urban homeownership

in New York City on April 29, and the Midwest and West regions will join with the State of New Mexico to put on a conference on lending on tribal lands in Albuquerque August 4 and 5. The Southeast Region is focusing on rural community development, but has not yet set a date for its conference.

In speeches, interviews and other public statements, OTS Director Ellen Seidman has asserted that thrift institutions, which are historically steeped in funding housing and community development, have an opportunity today to profitably expand their activities in low- and moderate-income communities. Institutions that believe they are unable to act alone may be able to work through consortia and cooperative programs that are active in their areas. Many thrifts already have gone this route successfully.

With the requirement that virtually everyone receiving a federal benefit such as social security must get it electroni-



*Thrift institution's participation in consortia to provide funding for low- and moderate-income housing and community development programs is growing. Thrifts in Chicago helped fund this housing project on the city's far south side.*

cally beginning January 1, 1999, thrifts have another opportunity to attract potential new customers. Those who don't already have an account will have to obtain one or have one designated by the government. With their community orientation, thrifts are well positioned to attract benefits recipients to their institutions through sensitive product development and outreach.

Photo courtesy of Neighborhood Reinvestment Corporation.

## Supervision Focuses on Health Maintenance

Now that the thrift industry has regained its financial strength, the supervisory process of the OTS is focused on maintaining that health. Success depends on:

- Maintaining a corps of experienced and well-trained examiners;
- Monitoring the industry's financial condition between safety and soundness examinations;
- Revising the examination process as new risks and challenges emerge; and
- Maintaining open and candid communications with the industry.

The OTS has a staff of examiners experienced in the thrift business and able to evaluate a thrift's operations during all phases of a business cycle. The average safety and soundness examiner on a staff of 475 such examiners today has 15 years' experience, which means he/she has been through a few business cycles, both good and bad. About 97 percent of all OTS examiners have qualified as Federal Thrift Regulators.

While an experienced and well-trained corps of examiners is a valuable asset, brining in new blood also is important. This year, the agency will add modestly to its examiner staff, hiring five examiners in each of its five regions. This will be the first group hiring of examiners in about eight years.

As new issues emerge, the agency arranges appropriate training to address these issues. For example, in 1997 the OTS provided training in commercial and consumer lending and advanced compliance training. The agency also joined with the Office of the Comptroller of the Currency (OCC) to offer consumer lending training to combined classes of OTS and OCC examiners. In this way, the training benefited from the experience of both agencies. Training priorities in 1998 include courses in electronic operations and Year 2000 conversion.

On-site activities of the examination staff are guided by thorough off-site monitoring. Portions of each regional office staff are dedicated to macro-monitoring the financial services industry and closely following the financial indices of individual thrift institutions. Technology is an important aid to these programs. Recent advances bring critical data to an analyst's fingertips with just a few keystrokes. On-line financial market data and Thrift Financial Report data are core

sources of information for the staff. In this manner, the OTS is able to monitor each institution's financial condition at least quarterly, while trends in the financial markets are monitored at least weekly and the most significant events in real time.

The OTS examination process is risk-focused. Because the industry's future financial health depends, in part, on the quality of today's risk-assessments, entry into new loan markets and significant changes in underwriting trigger careful review. Specialists are available to aid situations where an unusual depth of review is necessary. The OTS is in the process of updating its handbooks and other guidance. A major revision of the Thrift Activities Handbook, the most widely used of the handbook series, began last year and will be completed in 1998.

Today's examiner has to be a skilled communicator, as well as a proficient technician. These skills facilitate the open exchange of information between the examination staff and the industry that is so essential to good supervision. Communications is not limited to examinations, but is ongoing. Open communications lines help management address issues in a timely manner before examinations, and help the OTS stay abreast of developments in the industry.

A key aspect of the OTS supervisory process for the thrift industry is monitoring interest rate risk (IRR) exposure. The OTS developed its Net Portfolio Value model in 1991 to measure and monitor individual thrifts' risk exposure on a quarterly basis. The OTS is the only federal agency with a supervisory IRR model. Nearly all OTS-regulated thrifts, most of them on a voluntary basis, submit the necessary data to the OTS each quarter and receive back an individual risk analysis and exposure report. Additionally, the agency publishes a quarterly aggregate report on interest rate risk that also is available on the web page. The agency is reviewing its rules and guidance on IRR for the purpose of updating and simplifying them.

Ascertaining thrifts' compliance with CRA, fair lending and consumer laws is an important part of the supervisory process. The agency takes its responsibilities in those areas seriously, and the thrift industry on the whole recognizes the importance of complying with the laws. Out of nearly 500 thrifts given CRA examinations last year, more than three-fourths received a satisfactory rating. Eighteen percent were found to be outstanding, while 3 percent and 1 percent,

*“Open communications lines help management address issues. . . and help OTS stay abreast of developments. . .”*

respectively, rated either “needs to improve” or “substantial noncompliance.” The fair lending laws, which have been in effect for 30 years, require the OTS and other banking agencies to refer any suspected violations to the Department of Justice. The agency has made nine referrals since 1993, including one last year.

### **Electronic ROE and Loan Data Introduced**

Technology is playing an increasingly important role in the examination and supervision process. In August 1997, the OTS introduced a new Report of Examination (ROE) to allow examiners to create reports via software. The benefits of this approach are three-fold: 1) improvement in examiners’ ability to analyze financial data and illustrate their findings; 2) elimination of repetitive tasks completed by examiners; and 3) a more professional appearance and easier to read ROE. Examiners are using the computerized program in seven types of safety and soundness examinations and three types of holding company examinations.

Also in 1997, the agency inaugurated a procedure that allows thrifts to provide loan information to OTS examiners electronically. Institutions can provide such information as outstanding balance, number of days delinquent and other relevant data in an electronic format, reducing the examination budget. Examiners can improve their understanding of loan portfolios using these analytical tools, which are less intrusive for the institutions. In addition, random sampling is easier and faster, and the documentation in workpapers is less onerous.

In 1998, the agency will build on the work completed last year. Remaining ROE types, such as compliance, trust, and information systems examinations, will convert to the electronic system. Examiners are expected to start using these electronic reports in the third quarter this year.

### **Other Means of Tracking and Communicating**

The OTS web page on the Internet has taken on a substantial role in the agency’s communications with the thrift industry and the public both in terms of providing data and

useful information, such as the quarterly financial condition of the industry, and providing helpful guidance. The web page received a major overhaul and upgrade in 1997 to make it more attractive and user friendly than its original format.

An experienced web master joined the staff in time to help complete the makeover and take control of getting material posted in a timely manner. Partially because of these efforts, plus the growing recognition of the Internet as an effective and worthwhile communications tool, use of the OTS web page grew six-fold during the year to more than 11,000 hits. The web site is [www.ots.treas.gov](http://www.ots.treas.gov).

Research studies such as those on holding companies and the “Highly Profitable Thrifts,” a profile of thrifts that



*An OTS Examiner works on a COMPAQ laptop computer, a key tool used in the typical examination of a thrift institution. State-of-the-art technology such as this brings critical data to an examiner in seconds.*

exceeded a return on assets of 100 basis points for an extended period, are on the site, along with the quarterly data and highlights detailing the condition of the OTS-regulated thrift industry. Last year, the OTS compiled a Fact Book containing myriad data on the industry dating from 1940 through 1995. It was the first comprehensive update of this information since 1989. Subsequently, the year 1996 was added. With interest in new charter applications rising, the web page has a section, “Significant New Applications,” that lists them in a timely manner. A complete application section tracks progress of all types to completion. Speeches, testimony,

press releases and numerous other types of documents are available on the web page.

Better communications increases contact with the agency. For example, Freedom of Information Act (FOIA) requests jumped 40 percent, largely because of the web site, and OTS' PubliFax fax-on-demand service experienced a nearly 90 percent increase during the year.

The agency has expanded communications on a more personal, informal way through its ombudsman office. It has been an active participant in resolving conflicts and issues involving regulated institutions in such areas as applications processing, asset classifications, and low examination and CRA ratings. The office also has been an effective conduit for feedback from the industry. Moreover, the ombudsman, as well as other staff, have frequently been called upon to tell the thrift story of regulation, resolution and revival to a number of delegations from other nations eager to gain insight into how the OTS supervises the thrift industry.

### **Regulatory Reform Moves Forward**

Easier to understand regulations that are less burdensome on the thrift industry continued to be a high priority at the OTS in 1997. Various agency offices worked with the Regulations and Legislation Division of the Chief Counsel's Office to carry out this successful program.

Nineteen major proposed or final regulations were published in the Federal Register, most of them in a new easy-to-read format that substitutes "plain English" for the more formal legal vernacular. Among the regulations receiving this treatment were rules on deposit taking that eliminated micromanagement of thrifts' deposit operations. The agency updated and clarified procedures for chartering a new federal thrift and made it easier for a mutual depository institution, such as a credit union, to convert to a federal thrift charter.

Additionally, the OTS streamlined procedures for public comment on thrift institution applications, lowered liquidity requirements and expanded opportunities for thrifts to engage in credit card and small business lending. The first update to OTS' trust regulations since 1980 was issued in December.

The reform project led to a remake of several other rules in 1997 that were issued in proposed form and are expected to be finalized in 1998. For example, the OTS works with other federal banking regulators to streamline and standardize rules applicable to both thrifts and banks. An example is an interim final rule lengthening the period between exami-

nations for healthy, well-managed institutions, and another was action that reduced the capital required for small business loans and leases sold with recourse. Other proposed regulations would:

- Standardize capital requirements, including those dealing with minimum capital for construction loans on pre-sold residential property, and junior liens on one-to-four family residential properties;
- Broaden the definition of capital to include capital gains on certain equity securities; and
- Increase the amount of mortgage servicing rights that would count as capital.

On the legislative front, the OTS worked with Congressional staff in helping to formulate several provisions pertaining to thrifts in a regulatory burden relief bill. One provision would eliminate the statutory liquidity requirement for thrifts, a move the OTS has advocated for some time.

### **Revamp of Electronic Operations Rule Proposed**

Although the number of thrifts and banks offering their services and products via the Internet remains small, many are exploring the possibilities of electronic operations as a means to become more competitive, improve customer service and reduce operating costs. Technology is changing the landscape, and the OTS has taken the view that its regulations should not impede progress. At the same time, however, the OTS recognizes its responsibility in protecting depositors and users of such financial services and looking after the safety and soundness of thrift institutions that engage in these activities.

The OTS has been on the leading edge in regulating Internet operations, having approved the first all-Internet bank in 1995. Since then, the agency has approved two more, one of which is just beginning operations. In these approvals, the agency imposed conditions that address account privacy, security of the systems and other relevant areas of concern.

The agency expects to finalize a revamped rule on electronic operations, proposed last year, by mid-1998. The approach being taken is not to impede the use of technology, and to allow thrifts to compete effectively, but to make certain electronic banking is safe and sound and complies with consumer laws and regulations. Are systems and customer accounts secure? Do senior management, the directors and OTS examiners fully understand the systems and how to manage them? Do the thrifts and their customers know the rules of the game, such as who has responsibility for smart



cards and other instruments used in the system?

While awaiting final action on the new rule, the agency issued guidance on retail on-line personal computer banking in the form of CEO Memo 70, dated June 23, 1997. The memo laid out key steps a thrift should take when entering into this new realm. At the same time, the agency began a national training program to educate examiners specifically on information technology and how it affects safety and soundness. The program's objective is to ensure that safety and soundness examiners are well prepared to examine a thrift's information technology controls and electronic activities and to understand the benefits of blending business and technology and the inherent risks.

A key issue that will ultimately arise in broad-scale banking on the Internet are the implications for CRA compliance. To date, Internet operations have been geographically constrained, and the CRA assessment area easily defined. It is only a matter of time before operators will want to reach out more broadly. The OTS is working with other banking agencies through the Federal Financial Institutions Examination Council (FFIEC) to deal with this issue.

Two other areas of electronic operations are worthy of attention. One is the prevalent use of local and wide area networks throughout the thrift industry, offering benefits in productivity and information access. The growing use of personal computers and deployment of new technology depend on a network environment. Telephone banking, PC banking, automated teller machines, automatic bill payments, and automated clearing house systems have inherent risks because of their network affiliation. The OTS is developing an examination program using safety and soundness and information systems examination staff to monitor institutions' use of such networks.

The OTS is cooperating in an initiative by the Federal Deposit Insurance Corporation (FDIC) to monitor the world wide web for fraudulent activities by banks or those who illegally try to portray themselves as banks. There will be a dedicated e-mail address established to receive reports of suspicious activities, and government employees will actual-



*A Washington, D.C., couple, finalize a mortgage loan at a branch office of Chevy Chase Federal Bank in the Anacostia section of the District. Helping with the details is David Chandler, a loan officer with B.F. Saul Mortgage Company, a wholly owned subsidiary of the thrift. Fair lending laws have reached their 30th year milestone, having played an important role in increasing home ownership among minorities.*

ly search the web for questionable practices. A pilot project that began in March will be evaluated after six months.

### Litigation in the Goodwill Cases

The 131 goodwill cases in which thrift institutions and/or their surrogates are making financial claims against the government involve not only billions of dollars in claims sought by the plaintiffs, but also huge amounts of paper. The OTS, as the repository of many records pertinent to the government's defense in these cases, has provided millions of pages of potentially relevant material to the Department of Justice, which is presenting the government's defense. In 1997 alone, OTS staff devoted nearly 10,000 hours to culling and assembling the mountains of documents. That followed more than 7,300 hours in 1996. Every office and region in the agency has participated in collecting and sorting through this material. In addition, the OTS has assisted Justice by providing knowledgeable witnesses to help it present defenses to plaintiffs' claims.

The cases are pending in the United States Court of Federal Claims. They grew out of plaintiffs' claims that the government breached contracts with thrifts when it curtailed their ability to count supervisory goodwill when computing their capital ■



## THE AGENCY

### *“OTS Balances the Budget”*

**D**espite a shrinking assessment base, the OTS has kept its budget in balance over the past three years and actually achieved a small surplus in some years. In 1997, assessment income from OTS supervised thrifts decreased by 4 percent, but the agency still managed a net operating surplus of \$3.2 million. The OTS has projected another 2 percent income drop for 1998. Despite the downward trend over the past six years, the agency has achieved nearly all of its initiatives within the budgetary constraints.

Salaries and benefits for OTS employees consume the bulk of the annual budget. While the agency is restraining general expenditures, it realizes human capital is essential to effective operations and has invested heavily in certain areas to help retain staff and make them more productive. Most notably, expenditures for information resources increased 34 percent, as the agency put approximately 670 new state-of-the-art laptop computers in the hands of field examiners and installed a seamless electronic communications infrastructure.

### **Increasing Employee Productivity Through Training**

Providing the tools to enable the agency staff to do a better job is one side of the productivity coin. On the other side, the OTS made a substantial investment in employee competence and skills through training – a plan that is ongoing. The overall training budget increased nearly 30 percent in 1997 over the previous year, and an additional 6 percent is being added for 1998. Training this year comprises 3 percent of the total agency budget, which is a significant investment compared with the private sector and other federal financial regulators.

With the installation of a more versatile and powerful software package in 1996, nearly all of the OTS staff received training in its use at that time. The remaining staff received the training last year, along with instructions in a new computer communications system, or e-mail, as it was being installed on their personal computers. The e-mail system was fully deployed early in 1998.

The OTS adopted training priorities through Year 2000 in both regulatory and nonregulatory subjects. This led to three new regulatory courses – commercial lending, retail lending, and an advanced compliance examiner school – and modification of three existing regulatory courses in capital markets, mortgage lending, and advanced examiner topics.

Additionally, programs were set up to train examiners to use the new automated examination process, the new e-mail-communications package, and additional applications related to examination analysis.

Although the OTS staffing situation has steadied over the past two years, following sharp declines in the early 1990s, a key challenge for the OTS is to keep a skilled and motivated staff together. With many employees at the top of their salary range and at the upper end of their occupational

group, the agency faces a situation that tests the skill not only of the staff to do their jobs, but also of management to energize employees to be creative and use their initiative in solving problems.

The OTS has responded to these challenges with enhancements to the staff compensation package and strengthening of the dialog between management and staff, as well as with expanded training and better work tools. Those initiatives have been complemented by the renewed interest in the federal thrift charter, a more stable industry, and permanent leadership at the top.

The OTS Regulatory Fellow Program, which began in 1997 with six fellows, has been expanded to gear it toward bringing in, for approximately one year, professionals who specialize in such critical areas as capital markets and risk management. They will work with the existing staff to bolster the agency's expertise in these disciplines. The goal is to gain the benefit of the knowledge and perspective of professionals who have substantial experience in these important fields and can bring new insight to the agency.

### **Effecting a Smooth Millennial Rollover**

As far back as October 1995, the OTS realized its internal computer systems needed reprogramming to read the Year 2000 properly. Like many organizations, the agency had been relying on systems that were mainframe-based and consisted almost entirely of common oriented business language (COBOL) applications using two digits to designate the year. The OTS network includes 15 mission-critical information systems in three categories: administrative, regulatory and industry. In addition, the agency has to remedy the building systems in all of its offices nationwide to make them compliant. The remedial action plan has essentially two steps:

- Assess the scope, estimate necessary resources and schedule reprogramming for 28 administrative, regulatory and industry information systems, plus office building, computer-reliant systems. Approximately 90 percent of the computer code modifications have been completed. Thirteen of the agency's own 15 mission critical systems are in compliance now, and the final two are expected to be by November 1, 1998.
- Test and validate internal systems, about half of which occurred in 1997 and will continue during 1998 and 1999. Compliant systems are tested at a disaster recovery site with dates ranging from December 31, 1999, to June 1, 2000, a period that includes leap year tests.

The programming adjustment afforded an opportunity to evaluate the usefulness of older information systems, which turned out to be less efficient than when they were first put in place. The agency opted to use one software package, which is Year 2000 compliant, to replace other computer programs scattered throughout the organization. The result is the OTS has a more complete, accurate and usable inventory of hardware and software ■



## Highlights of the Thrift Industry

Table 1  
The OTS-Regulated Thrift Industry  
Selected Indicators  
(Dollars in Billions)

### NATIONAL COMPOSITE

		1993	1994	1995	1996	ADJ 1996 <sup>(1)</sup>	1997	3-MONTHS ENDED SEP 1997	DEC 1997
<b>SUMMARY DATA:</b>									
Number of Thrifts	(#)	1,669	1,543	1,437	1,334		1,215	1,238	1,215
Total Assets	(\$)	774.77	774.07	770.98	769.37		776.63	762.80	776.63
Net Income	(\$)	4.92	4.28	5.36	4.74	6.80	6.45	1.34	1.70
Profits	(\$)	6.95	5.96	6.04	5.91		7.00	1.66	1.81
Losses	(\$)	-2.03	-1.68	-0.68	-1.18		-0.55	-0.31	-0.11
<b>PROFITABILITY MEASURES:</b>									
Return on Average Assets	(%)	0.63	0.56	0.70	0.62	0.89	0.85	0.71	0.89
Median Ratio	(%)	0.97	0.82	0.72	0.44	0.75	0.80	0.87	0.79
Return on Average Equity	(%)	8.66	7.36	9.00	7.77	11.15	10.50	8.73	10.74
Median Ratio	(%)	11.79	9.06	7.53	4.33	7.56	8.02	8.63	7.70
Net Interest Income	(\$)	23.52	22.21	20.53	21.79		21.82	5.36	5.46
% of Average Assets	(%)	3.01	2.90	2.66	2.85		2.87	2.84	2.85
Total Fee Income	(\$)	2.51	2.68	2.87	3.65		4.38	1.12	1.20
% of Average Assets	(%)	0.35	0.36	0.39	0.51		0.62	0.59	0.62
G&A Expense	(\$)	16.68	16.37	15.26	19.14	15.97	16.04	4.11	4.21
% of Average Assets	(%)	2.13	2.14	1.98	2.50	2.09	2.11	2.18	2.19
<b>CAPITAL MEASURES:</b>									
Equity Capital Ratio	(%)	7.50	7.48	8.01	7.92		8.33	8.18	8.33
Tier 1 Leverage Ratio	(%)	7.08	7.12	7.47	7.38		7.59	7.50	7.59
Risk-based Capital Ratio	(%)	14.64	14.79	15.15	14.53		14.59	14.49	14.59
Thrifts by FDICIA Capital Categories:									
Well-Capitalized	(#)	1,550	1,439	1,392	1,290		1,183	1,209	1,183
Adequately Capitalized	(#)	109	95	38	43		31	26	31
Undercapitalized	(#)	8	5	4	0		1	3	1
Significantly Undercapitalized	(#)	1	3	1	1		0	0	0
Critically Undercapitalized	(#)	1	1	0	0		0	0	0
<b>FAILED/PROBLEM THRIFTS:</b>									
Failed Thrifts	(#)	8	2	2	1		0	0	0
Problem Thrifts	(#)	101	53	41	29		18	23	18
Problem Thrift Assets	(\$)	77.24	30.32	10.76	5.43		1.58	1.77	1.58
Problem Thrift Assets as a % of Total Assets	(%)	9.97	3.92	1.40	0.71		0.20	0.23	0.20
<b>ASSET QUALITY MEASURES:</b>									
Troubled Assets <sup>(2)</sup>	(\$)	16.75	10.86	9.54	8.71		7.76	8.20	7.76
% of Total Assets	(%)	2.16	1.40	1.24	1.13		1.00	1.08	1.00
Noncurrent Loans	(\$)	9.90	7.05	6.76	6.57		5.95	6.30	5.95
% of Total Assets	(%)	1.28	0.91	0.88	0.85		0.77	0.83	0.77
Noncurrent Loans as a % of Loan Type:									
1-4 Family Mortgages	(%)	1.50	1.18	1.28	1.21		1.11	1.20	1.11
Multifamily Loans	(%)	3.43	2.17	1.62	1.45		0.79	0.88	0.79
Commercial Loans	(%)	4.49	2.55	1.43	1.38		1.10	1.23	1.10
Consumer Loans	(%)	0.90	0.72	0.76	0.89		0.97	0.91	0.97
<b>1-4 FAMILY MORTGAGE LOAN ACTIVITY:</b>									
Originations	(\$)	189.45	132.63	106.32	136.08		150.16	39.48	44.57
Purchases	(\$)	61.35	45.02	40.51	57.37		62.37	17.02	19.24
Sales	(\$)	149.45	96.31	76.40	93.76		111.74	26.56	40.62
Loans Outstanding <sup>(3)</sup>	(\$)	354.75	364.02	365.29	383.86		390.76	387.75	390.76
Loans Outstanding as a % of Total Assets <sup>(3)</sup>	(%)	45.79	47.03	47.38	49.89		50.32	50.83	50.32

(1) Excludes the SAIF special assessment.

(2) Data after 1995 are net of specific valuation allowances.

(3) Does not include Mortgage Backed Securities.

Numbers may not sum due to rounding. With the exception of regulatory capital measures, all data prior to June 1996 are unconsolidated.

Table 2  
The OTS-Regulated Thrift Industry  
Aggregate Financial Condition and Income Data  
(Dollars in Billions)

NATIONAL COMPOSITE

	DECEMBER 1996		SEPTEMBER 1997		DECEMBER 1997	
	(\$)	% of Total Assets	(\$)	% of Total Assets	(\$)	% of Total Assets
TOTAL ASSETS	769.37	100.00	762.80	100.00	776.63	100.00
1-4 Family Mortgages	383.86	49.89	387.75	50.83	390.76	50.32
Mortgage Pool Securities	110.98	14.42	103.75	13.60	103.81	13.37
Multifamily Mortgages	48.78	6.34	47.54	6.23	47.46	6.11
Nonresidential Mortgages	32.64	4.24	29.85	3.91	30.24	3.89
Construction Loans	17.57	2.28	11.39	1.49	11.32	1.46
Land Loans	3.78	0.49	3.44	0.45	3.50	0.45
Commercial Loans	9.39	1.22	10.63	1.39	11.50	1.48
Consumer Loans	39.86	5.18	43.31	5.68	44.86	5.78
Cash and Noninterest-Earning Deposits	10.74	1.40	9.77	1.28	10.85	1.40
Investment Securities	87.52	11.38	80.39	10.54	85.05	10.95
Mortgage Derivatives	38.57	5.01	36.12	4.74	36.25	4.67
Reposessed Assets, Net	2.14	0.28	1.90	0.25	1.81	0.23
Real Estate Held for Investment	0.48	0.06	0.46	0.06	0.47	0.06
Office Premises & Equipment	8.10	1.05	7.82	1.03	7.89	1.02
Other Assets	29.67	3.86	29.99	3.93	32.46	4.18
Less: Contra Assets & Valuation Allowances	16.14	2.10	5.20	0.68	5.37	0.69
TOTAL LIABILITIES AND CAPITAL	769.37	100.00	762.80	100.00	776.63	100.00
Total Deposits	519.94	67.58	501.68	65.77	507.78	65.38
Deposits < or = to \$100,000	448.92	58.35	424.91	55.70	426.43	54.91
Deposits > \$100,000	71.02	9.23	76.77	10.06	81.35	10.48
Escrows	6.61	0.86	8.18	1.07	8.37	1.08
Total Borrowings	173.10	22.50	180.18	23.62	184.89	23.81
Advances from FHLB	103.43	13.44	106.61	13.98	118.51	15.26
Reverse Repurchase Agreements	39.67	5.16	42.34	5.55	38.49	4.96
Other Borrowings	30.00	3.90	31.23	4.09	27.89	3.59
Other Liabilities	8.78	1.14	10.37	1.36	10.93	1.41
EQUITY CAPITAL	60.94	7.92	62.39	8.18	64.66	8.33
	DECEMBER 1996		SEPTEMBER 1997		DECEMBER 1997	
	(\$)	% of Avg. Assets (*)	(\$)	% of Avg. Assets (*)	(\$)	% of Avg. Assets (*)
INCOME AND EXPENSE DATA						
Interest Income	13.84	7.23	13.78	7.30	14.07	7.34
Interest Expense	8.38	4.38	8.41	4.46	8.61	4.49
Net Interest Income	5.46	2.85	5.36	2.84	5.46	2.85
Loss Provisions-Interest Bearing Assets	0.70	0.37	0.49	0.26	0.50	0.26
Noninterest Income	1.77	0.92	1.53	0.81	2.14	1.12
Mortgage Loan Servicing Fees	0.23	0.12	0.21	0.11	0.23	0.12
Other Fees and Charges	0.75	0.39	0.91	0.48	0.97	0.51
Other Noninterest Income	0.79	0.41	0.41	0.22	0.94	0.49
Noninterest Expense	4.39	2.29	4.29	2.27	4.41	2.30
G&A Expense	4.21	2.20	4.11	2.18	4.21	2.19
Goodwill Expense	0.13	0.07	0.14	0.07	0.15	0.08
Loss Provis.-Nonint. Bearing Assets	0.06	0.03	0.04	0.02	0.05	0.03
Income Before Taxes & Extraord. Items	2.13	1.11	2.12	1.12	2.69	1.40
Income Taxes	0.66	0.34	0.78	0.41	0.99	0.51
Extraordinary Items	0.00	0.00	0.00	0.00	0.00	0.00
Net Income	1.47	0.77	1.34	0.71	1.70	0.89

\* Annualized.  
Beginning in 1997, detailed asset categories are reported net of specific valuation allowances, loans in process, and unamortized yield adjustments.  
Numbers may not sum due to rounding.  
With the exception of regulatory capital measures, all data prior to June 1996 are unconsolidated.



## Highlights of the Thrift Industry

Table 3  
The OTS-Regulated Thrift Industry  
Selected Indicators  
(Dollars in Billions)

### NORTHEAST REGION

		1993	1994	1995	1996	ADJ 1996 (1)	1997	3-MONTHS ENDED SEP 1997	DEC 1997
<b>SUMMARY DATA:</b>									
Number of Thrifts	(#)	315	293	283	269		257	258	257
Total Assets	(\$)	125.52	126.19	140.09	139.82		153.60	146.21	153.60
Net Income	(\$)	0.43	0.99	1.00	0.95	1.25	1.29	0.32	0.37
Profits	(\$)	1.11	1.12	1.04	1.05		1.32	0.33	0.38
Losses	(\$)	-0.68	-0.13	-0.04	-0.10		-0.04	-0.01	-0.01
<b>PROFITABILITY MEASURES:</b>									
Return on Average Assets	(%)	0.35	0.79	0.77	0.68	0.89	0.91	0.91	0.98
Median Ratio	(%)	0.92	0.86	0.70	0.44	0.75	0.76	0.81	0.72
Return on Average Equity	(%)	5.00	10.50	9.59	8.30	10.87	10.88	10.91	11.48
Median Ratio	(%)	11.56	9.61	7.47	4.47	7.83	7.95	8.53	7.35
Net Interest Income	(\$)	3.92	3.92	3.83	4.18		4.33	1.09	1.15
% of Average Assets	(%)	3.19	3.10	2.96	2.99		3.07	3.07	3.08
Total Fee Income	(\$)	0.26	0.29	0.32	0.41		0.62	0.15	0.23
% of Average Assets	(%)	0.23	0.24	0.26	0.33		0.63	0.43	0.63
G&A Expense	(\$)	2.63	2.61	2.58	3.17	2.71	2.91	0.72	0.83
% of Average Assets	(%)	2.14	2.07	2.00	2.27	1.94	2.06	2.01	2.22
<b>CAPITAL MEASURES:</b>									
Equity Capital Ratio	(%)	7.33	7.74	8.41	8.24		8.75	8.40	8.75
Tier 1 Leverage Ratio	(%)	7.10	7.49	7.89	7.60		7.91	7.76	7.91
Risk-based Capital Ratio	(%)	15.48	16.72	17.35	16.35		16.39	16.22	16.39
Thrifts by FDICIA Capital Categories:									
Well-Capitalized	(#)	294	278	278	264		257	257	257
Adequately Capitalized	(#)	17	13	3	5		0	1	0
Undercapitalized	(#)	3	2	1	0		0	0	0
Significantly Undercapitalized	(#)	0	0	0	0		0	0	0
Critically Undercapitalized	(#)	1	0	0	0		0	0	0
<b>FAILED/PROBLEM THRIFTS:</b>									
Failed Thrifts	(#)	1	0	1	0		0	0	0
Problem Thrifts	(#)	21	6	2	0		1	1	1
Problem Thrift Assets	(\$)	15.37	0.77	0.31	0.00		0.22	0.23	0.22
Problem Thrift Assets as a % of Total Assets	(%)	12.25	0.61	0.22	0.00		0.15	0.16	0.15
<b>ASSET QUALITY MEASURES:</b>									
Troubled Assets (2)	(\$)	3.59	2.22	1.76	2.02		2.17	2.36	2.17
% of Total Assets	(%)	2.86	1.76	1.26	1.44		1.41	1.61	1.41
Noncurrent Loans	(\$)	2.32	1.54	1.27	1.64		1.83	2.04	1.83
% of Total Assets	(%)	1.85	1.22	0.91	1.17		1.19	1.39	1.19
Noncurrent Loans as a % of Loan Type:									
1-4 Family Mortgages	(%)	2.35	1.60	1.43	1.69		1.92	2.29	1.92
Multifamily Loans	(%)	8.97	5.90	1.92	3.69		2.52	2.72	2.52
Commercial Loans	(%)	7.27	5.12	2.52	2.66		1.87	2.03	1.87
Consumer Loans	(%)	1.20	1.20	1.19	1.11		0.86	0.85	0.86
<b>1-4 FAMILY MORTGAGE LOAN ACTIVITY:</b>									
Originations	(\$)	16.99	12.96	12.38	18.76		21.77	5.29	8.26
Purchases	(\$)	6.13	3.95	8.38	12.38		6.41	1.66	2.14
Sales	(\$)	12.34	7.14	5.64	8.64		11.67	2.23	5.85
Loans Outstanding (3)	(\$)	49.91	50.03	59.58	63.39		68.50	65.57	68.50
Loans Outstanding as a % of Total Assets (3)	(%)	39.77	39.64	42.53	45.33		44.60	44.85	44.60

(1) Excludes the SAIF special assessment.

(2) Data after 1995 are net of specific valuation allowances.

(3) Does not include Mortgage Backed Securities.

Numbers may not sum due to rounding. With the exception of regulatory capital measures, all data prior to June 1996 are unconsolidated.

Table 4  
The OTS-Regulated Thrift Industry  
Aggregate Financial Condition and Income Data  
(Dollars in Billions)

NORTHEAST REGION

	DECEMBER 1996		SEPTEMBER 1997		DECEMBER 1997	
	(\$)	% of Total Assets	(\$)	% of Total Assets	(\$)	% of Total Assets
TOTAL ASSETS	139.82	100.00	146.21	100.00	153.60	100.00
1-4 Family Mortgages	63.39	45.33	65.57	44.85	68.50	44.60
Mortgage Pool Securities	22.94	16.41	23.53	16.09	23.56	15.34
Multifamily Mortgages	6.07	4.34	5.94	4.06	6.15	4.00
Nonresidential Mortgages	6.52	4.66	6.87	4.70	7.25	4.72
Construction Loans	1.66	1.19	1.20	0.82	1.28	0.83
Land Loans	0.32	0.23	0.27	0.19	0.28	0.18
Commercial Loans	1.88	1.35	2.35	1.61	2.65	1.72
Consumer Loans	5.84	4.18	7.89	5.40	8.48	5.52
Cash and Noninterest-Earning Deposits	1.70	1.21	1.81	1.24	2.15	1.40
Investment Securities	24.98	17.86	24.84	16.99	26.23	17.08
Mortgage Derivatives	12.67	9.06	13.15	9.00	12.56	8.18
Reposessed Assets, Net	0.38	0.27	0.32	0.22	0.35	0.23
Real Estate Held for Investment	0.07	0.05	0.08	0.05	0.09	0.06
Office Premises & Equipment	1.37	0.98	1.40	0.95	1.49	0.97
Other Assets	4.72	3.38	5.00	3.42	6.04	3.93
Less: Contra Assets & Valuation Allowances	2.01	1.44	0.85	0.58	0.90	0.59
TOTAL LIABILITIES AND CAPITAL	139.82	100.00	146.21	100.00	153.60	100.00
Total Deposits	98.67	70.57	100.19	68.52	104.26	67.88
Deposits < or = to \$100,000	89.16	63.76	88.33	60.42	90.60	58.99
Deposits > \$100,000	9.52	6.81	11.85	8.11	13.66	8.89
Escrows	1.21	0.87	1.17	0.80	1.45	0.94
Total Borrowings	26.99	19.30	31.01	21.21	32.59	21.22
Advances from FHLB	17.17	12.28	18.18	12.44	20.91	13.62
Reverse Repurchase Agreements	7.95	5.69	10.44	7.14	8.95	5.83
Other Borrowings	1.86	1.33	2.39	1.63	2.73	1.78
Other Liabilities	1.43	1.02	1.56	1.07	1.85	1.21
EQUITY CAPITAL	11.53	8.24	12.28	8.40	13.43	8.75
	DECEMBER 1996		SEPTEMBER 1997		DECEMBER 1997	
	(\$)	% of Avg. Assets (*)	(\$)	% of Avg. Assets (*)	(\$)	% of Avg. Assets (*)
INCOME AND EXPENSE DATA						
Interest Income	2.48	7.12	2.62	7.36	2.77	7.40
Interest Expense	1.44	4.14	1.53	4.29	1.62	4.32
Net Interest Income	1.04	2.98	1.09	3.07	1.15	3.08
Loss Provisions-Interest Bearing Assets	0.06	0.19	0.07	0.21	0.08	0.21
Noninterest Income	0.24	0.69	0.24	0.69	0.36	0.97
Mortgage Loan Servicing Fees	0.03	0.09	0.04	0.11	0.06	0.15
Other Fees and Charges	0.08	0.23	0.11	0.32	0.18	0.47
Other Noninterest Income	0.13	0.37	0.09	0.25	0.13	0.34
Noninterest Expense	0.73	2.10	0.74	2.09	0.87	2.32
G&A Expense	0.69	1.99	0.72	2.01	0.83	2.22
Goodwill Expense	0.02	0.07	0.02	0.07	0.03	0.07
Loss Provis.-Nonint. Bearing Assets	0.02	0.05	0.01	0.02	0.01	0.02
Income Before Taxes & Extraord. Items	0.48	1.39	0.52	1.45	0.57	1.52
Income Taxes	0.17	0.49	0.19	0.54	0.20	0.54
Extraordinary Items	0.00	0.00	0.00	0.00	0.00	0.00
Net Income	0.31	0.90	0.32	0.91	0.37	0.98

\* Annualized.  
Beginning in 1997, detailed asset categories are reported net of specific valuation allowances, loans in process, and unamortized yield adjustments.  
Numbers may not sum due to rounding.  
With the exception of regulatory capital measures, all data prior to June 1996 are unconsolidated.



Table 5  
The OTS-Regulated Thrift Industry  
Selected Indicators  
(Dollars in Billions)

## SOUTHEAST REGION

		1993	1994	1995	1996	ADJ 1996 (1)	1997	3-MONTHS ENDED SEP 1997	DEC 1997
<b>SUMMARY</b>									
Number of Thrifts	(#)	343	319	291	264		237	246	237
Total Assets	(\$)	94.50	82.29	73.01	61.71		62.81	62.70	62.81
Net Income	(\$)	0.66	0.67	0.58	0.34	0.53	0.54	0.14	0.12
Profits	(\$)	0.95	0.74	0.64	0.46		0.60	0.16	0.15
Losses	(\$)	-0.29	-0.07	-0.06	-0.12		-0.06	-0.01	-0.03
<b>PROFITABILITY MEASURES:</b>									
Return on Average Assets	(%)	0.68	0.78	0.74	0.53	0.83	0.86	0.91	0.78
Median Ratio	(%)	0.99	0.79	0.74	0.44	0.76	0.76	0.87	0.77
Return on Average Equity	(%)	9.15	9.73	8.76	5.82	9.04	9.20	9.64	8.01
Median Ratio	(%)	11.85	9.19	8.03	4.30	7.41	7.76	8.55	7.35
Net Interest Income	(\$)	3.11	2.73	2.32	2.11		2.04	0.49	0.49
% of Average Assets	(%)	3.21	3.19	2.99	3.28		3.28	3.14	3.17
Total Fee Income	(\$)	0.36	0.42	0.51	0.66		0.73	0.22	0.19
% of Average Assets	(%)	0.38	0.55	0.73	1.12		1.23	1.39	1.23
G&A Expense	(\$)	2.35	2.13	1.97	2.16	1.86	1.93	0.49	0.49
% of Average Assets	(%)	2.42	2.48	2.54	3.35	2.90	3.10	3.13	3.21
<b>CAPITAL MEASURES:</b>									
Equity Capital Ratio	(%)	7.58	8.22	8.98	9.10		9.85	9.58	9.85
Tier 1 Leverage Ratio	(%)	7.32	8.03	8.51	8.62		9.05	8.95	9.05
Risk-based Capital Ratio	(%)	15.01	16.30	16.62	16.01		16.40	16.10	16.40
Thrifts by FDICIA Capital Categories:									
Well-Capitalized	(#)	307	292	281	251		223	233	223
Adequately Capitalized	(#)	34	26	9	12		14	11	14
Undercapitalized	(#)	2	1	0	0		0	2	0
Significantly Undercapitalized	(#)	0	0	0	1		0	0	0
Critically Undercapitalized	(#)	0	0	0	0		0	0	0
<b>FAILED/PROBLEM THRIFTS:</b>									
Failed Thrifts	(#)	0	0	0	0		0	0	0
Problem Thrifts	(#)	35	19	15	13		9	12	9
Problem Thrift Assets	(\$)	12.79	3.32	1.33	0.85		0.56	0.73	0.56
Problem Thrift Assets as a % of Total Assets	(%)	13.53	4.03	1.82	1.38		0.89	1.17	0.89
<b>ASSET QUALITY MEASURES:</b>									
Troubled Assets (2)	(\$)	2.13	1.34	0.97	0.79		0.72	0.74	0.72
% of Total Assets	(%)	2.25	1.62	1.33	1.28		1.15	1.18	1.15
Noncurrent Loans	(\$)	1.02	0.64	0.51	0.49		0.46	0.48	0.46
% of Total Assets	(%)	1.08	0.78	0.70	0.80		0.74	0.76	0.74
Noncurrent Loans as a % of Loan Type:									
1-4 Family Mortgages	(%)	1.10	0.82	0.83	0.94		0.94	0.99	0.94
Multifamily Loans	(%)	2.12	2.39	1.98	1.39		0.91	1.39	0.91
Commercial Loans	(%)	5.14	2.75	1.71	1.97		1.07	1.41	1.07
Consumer Loans	(%)	1.38	0.82	1.04	1.54		1.82	1.52	1.82
<b>1-4 FAMILY MORTGAGE LOAN ACTIVITY:</b>									
Originations	(\$)	27.38	14.96	9.94	11.58		12.07	3.22	3.23
Purchases	(\$)	7.68	6.23	3.22	3.03		5.87	1.38	2.16
Sales	(\$)	19.90	11.01	6.01	6.35		8.94	2.51	2.40
Loans Outstanding (3)	(\$)	42.31	39.20	34.36	29.67		29.68	29.26	29.68
Loans Outstanding as a % of Total Assets (3)	(%)	44.77	47.63	47.06	48.08		47.25	46.66	47.25

(1) Excludes the SAIF special assessment.

(2) Data after 1995 are net of specific valuation allowances.

(3) Does not include Mortgage Backed Securities.

Numbers may not sum due to rounding. With the exception of regulatory capital measures, all data prior to June 1996 are unconsolidated.

Table 6  
The OTS-Regulated Thrift Industry  
Aggregate Financial Condition and Income Data  
(Dollars in Billions)

SOUTHEAST REGION

	DECEMBER 1996		SEPTEMBER 1997		DECEMBER 1997	
	(\$)	% of Total Assets	(\$)	% of Total Assets	(\$)	% of Total Assets
TOTAL ASSETS	61.71	100.00	62.70	100.00	62.81	100.00
1-4 Family Mortgages	29.67	48.08	29.26	46.66	29.68	47.25
Mortgage Pool Securities	6.06	9.82	6.73	10.73	6.40	10.19
Multifamily Mortgages	0.99	1.60	0.91	1.45	0.86	1.37
Nonresidential Mortgages	3.79	6.15	3.67	5.84	3.62	5.76
Construction Loans	3.64	5.91	2.37	3.78	2.37	3.77
Land Loans	1.22	1.98	1.18	1.87	1.16	1.85
Commercial Loans	1.11	1.79	1.18	1.88	1.11	1.77
Consumer Loans	5.05	8.19	5.07	8.09	4.73	7.53
Cash and Noninterest-Earning Deposits	1.20	1.94	1.14	1.81	1.24	1.98
Investment Securities	8.09	13.12	8.16	13.01	8.45	13.46
Mortgage Derivatives	2.02	3.27	2.00	3.19	2.08	3.31
Reposessed Assets, Net	0.30	0.48	0.26	0.41	0.26	0.41
Real Estate Held for Investment	0.06	0.09	0.05	0.08	0.05	0.09
Office Premises & Equipment	0.96	1.55	1.00	1.59	0.99	1.57
Other Assets	1.95	3.16	2.20	3.50	2.36	3.76
Less: Contra Assets & Valuation Allowances	2.38	3.86	0.47	0.74	0.48	0.76
TOTAL LIABILITIES AND CAPITAL	61.71	100.00	62.70	100.00	62.81	100.00
Total Deposits	46.98	76.13	46.90	74.80	46.24	73.63
Deposits < or = to \$100,000	40.44	65.53	39.72	63.34	38.98	62.06
Deposits > \$100,000	6.54	10.60	7.18	11.46	7.26	11.57
Escrows	0.21	0.35	0.36	0.57	0.23	0.37
Total Borrowings	8.08	13.09	8.42	13.43	9.14	14.55
Advances from FHLB	5.35	8.67	6.39	10.19	7.23	11.52
Reverse Repurchase Agreements	1.62	2.63	1.05	1.67	1.11	1.77
Other Borrowings	1.10	1.79	0.98	1.57	0.79	1.26
Other Liabilities	0.82	1.34	1.02	1.62	1.01	1.61
EQUITY CAPITAL	5.61	9.10	6.00	9.58	6.19	9.85
	DECEMBER 1996		SEPTEMBER 1997		DECEMBER 1997	
	(\$)	% of Avg. Assets (*)	(\$)	% of Avg. Assets (*)	(\$)	% of Avg. Assets (*)
INCOME AND EXPENSE DATA						
Interest Income	1.17	7.68	1.16	7.46	1.15	7.47
Interest Expense	0.65	4.27	0.67	4.31	0.66	4.29
Net Interest Income	0.52	3.41	0.49	3.14	0.49	3.17
Loss Provisions-Interest Bearing Assets	0.07	0.44	0.07	0.43	0.07	0.47
Noninterest Income	0.24	1.60	0.31	1.98	0.30	1.93
Mortgage Loan Servicing Fees	0.01	0.08	0.01	0.09	0.01	0.10
Other Fees and Charges	0.16	1.03	0.20	1.31	0.17	1.13
Other Noninterest Income	0.07	0.48	0.09	0.59	0.11	0.70
Noninterest Expense	0.50	3.28	0.50	3.22	0.52	3.38
G&A Expense	0.48	3.14	0.49	3.13	0.49	3.21
Goodwill Expense	0.02	0.10	0.01	0.06	0.02	0.10
Loss Provis.-Nonint. Bearing Assets	0.00	0.03	0.01	0.04	0.01	0.07
Income Before Taxes & Extraord. Items	0.20	1.29	0.23	1.47	0.19	1.25
Income Taxes	0.07	0.46	0.08	0.54	0.07	0.47
Extraordinary Items	0.00	0.00	0.00	-0.02	0.00	0.00
Net Income	0.13	0.82	0.14	0.91	0.12	0.78

\* Annualized.  
Beginning in 1997, detailed asset categories are reported net of specific valuation allowances, loans in process, and unamortized yield adjustments.  
Numbers may not sum due to rounding.  
With the exception of regulatory capital measures, all data prior to June 1996 are unconsolidated.



## Highlights of the Thrift Industry

Table 7  
The OTS-Regulated Thrift Industry  
Selected Indicators  
(Dollars in Billions)

### CENTRAL REGION

		1993	1994	1995	1996	ADJ 1996 (1)	1997	3-MONTHS ENDED SEP 1997	DEC 1997
<b>SUMMARY DATA:</b>									
Number of Thrifts	(#)	517	470	433	405		363	363	363
Total Assets	(\$)	145.11	147.36	157.25	158.17		156.92	151.52	156.92
Net Income	(\$)	1.42	1.13	1.32	1.11	1.58	1.45	0.38	0.25
Profits	(\$)	1.59	1.33	1.47	1.33		1.54	0.39	0.32
Losses	(\$)	-0.17	-0.20	-0.15	-0.21		-0.09	-0.01	-0.07
<b>PROFITABILITY MEASURES:</b>									
Return on Average Assets	(%)	0.97	0.79	0.85	0.70	1.00	0.94	1.01	0.64
Median Ratio	(%)	0.98	0.83	0.77	0.44	0.75	0.85	0.93	0.85
Return on Average Equity	(%)	12.02	9.32	9.89	8.10	11.51	10.60	11.05	6.99
Median Ratio	(%)	10.91	8.79	7.29	3.98	7.04	7.90	8.48	7.63
Net Interest Income	(\$)	4.58	4.36	4.25	4.55		4.52	1.09	1.12
% of Average Assets	(%)	3.12	3.02	2.75	2.88		2.93	2.89	2.90
Total Fee Income	(\$)	0.43	0.48	0.57	0.68		0.74	0.18	0.18
% of Average Assets	(%)	0.33	0.34	0.38	0.43		0.48	0.49	0.48
G&A Expense	(\$)	3.03	2.95	3.10	3.92	3.20	3.34	0.76	0.95
% of Average Assets	(%)	2.06	2.05	2.00	2.47	2.02	2.17	2.02	2.46
<b>CAPITAL MEASURES:</b>									
Equity Capital Ratio	(%)	8.31	8.52	8.77	8.46		9.14	9.15	9.14
Tier 1 Leverage Ratio	(%)	8.08	8.18	8.30	8.00		8.09	8.09	8.09
Risk-based Capital Ratio	(%)	17.35	17.21	17.22	15.98		15.40	15.64	15.40
Thrifts by FDICIA Capital Categories:									
Well-Capitalized	(#)	507	456	424	396		355	356	355
Adequately Capitalized	(#)	10	14	9	9		7	6	7
Undercapitalized	(#)	0	0	0	0		1	1	1
Significantly Undercapitalized	(#)	0	0	0	0		0	0	0
Critically Undercapitalized	(#)	0	0	0	0		0	0	0
<b>FAILED/PROBLEM THRIFTS:</b>									
Failed Thrifts	(#)	0	0	0	0		0	0	0
Problem Thrifts	(#)	6	2	4	3		2	2	2
Problem Thrift Assets	(\$)	3.83	0.05	0.86	0.73		0.03	0.03	0.03
Problem Thrift Assets as a % of Total Assets	(%)	2.64	0.03	0.55	0.46		0.02	0.02	0.02
<b>ASSET QUALITY MEASURES:</b>									
Troubled Assets (2)	(\$)	1.12	0.86	1.17	1.06		1.07	1.01	1.07
% of Total Assets	(%)	0.78	0.59	0.74	0.67		0.68	0.67	0.68
Noncurrent Loans	(\$)	0.71	0.64	1.01	0.89		0.86	0.83	0.86
% of Total Assets	(%)	0.49	0.43	0.64	0.56		0.55	0.55	0.55
Noncurrent Loans as a % of Loan Type:									
1-4 Family Mortgages	(%)	0.59	0.59	0.87	0.68		0.68	0.65	0.68
Multifamily Loans	(%)	1.21	0.92	1.35	1.46		0.78	0.83	0.78
Commercial Loans	(%)	3.52	1.46	1.16	1.24		0.67	0.93	0.67
Consumer Loans	(%)	0.59	0.44	0.84	0.93		1.10	1.17	1.10
<b>1-4 FAMILY MORTGAGE LOAN ACTIVITY:</b>									
Originations	(\$)	43.09	26.49	28.14	38.41		39.81	10.79	12.04
Purchases	(\$)	14.04	9.98	10.25	12.24		15.49	3.71	6.16
Sales	(\$)	31.74	18.58	20.55	29.96		34.10	7.42	13.75
Loans Outstanding (3)	(\$)	68.50	72.24	77.74	80.77		80.94	80.21	80.94
Loans Outstanding as a % of Total Assets (3)	(%)	47.21	49.02	49.43	51.07		51.58	52.94	51.58

(1) Excludes the SAIF special assessment.

(2) Data after 1995 are net of specific valuation allowances.

(3) Does not include Mortgage Backed Securities.

Numbers may not sum due to rounding. With the exception of regulatory capital measures, all data prior to June 1996 are unconsolidated.

Table 8  
The OTS-Regulated Thrift Industry  
Aggregate Financial Condition and Income Data  
(Dollars in Billions)

## CENTRAL REGION

	DECEMBER 1996		SEPTEMBER 1997		DECEMBER 1997	
	(\$)	% of Total Assets	(\$)	% of Total Assets	(\$)	% of Total Assets
<b>TOTAL ASSETS</b>	158.17	100.00	151.52	100.00	156.92	100.00
1-4 Family Mortgages	80.77	51.07	80.21	52.94	80.94	51.58
Mortgage Pool Securities	19.15	12.11	14.63	9.65	14.74	9.39
Multifamily Mortgages	6.22	3.93	5.68	3.75	5.71	3.64
Nonresidential Mortgages	5.65	3.57	4.97	3.28	5.22	3.33
Construction Loans	4.54	2.87	3.00	1.98	2.83	1.80
Land Loans	1.00	0.63	0.89	0.58	0.94	0.60
Commercial Loans	2.11	1.33	2.34	1.54	2.84	1.81
Consumer Loans	10.60	6.70	11.73	7.74	12.90	8.22
Cash and Noninterest-Earning Deposits	2.43	1.53	2.20	1.45	2.19	1.40
Investment Securities	19.57	12.38	18.49	12.20	20.73	13.21
Mortgage Derivatives	8.86	5.60	8.02	5.29	8.85	5.64
Reposessed Assets, Net	0.17	0.11	0.19	0.12	0.20	0.13
Real Estate Held for Investment	0.13	0.08	0.14	0.09	0.13	0.09
Office Premises & Equipment	1.78	1.13	1.66	1.10	1.73	1.10
Other Assets	7.18	4.54	6.23	4.11	6.71	4.28
Less: Contra Assets & Valuation Allowances	3.15	1.99	0.82	0.54	0.90	0.58
<b>TOTAL LIABILITIES AND CAPITAL</b>	158.17	100.00	151.52	100.00	156.92	100.00
Total Deposits	112.43	71.08	106.23	70.11	109.55	69.81
Deposits < or = to \$100,000	97.74	61.79	90.67	59.84	93.28	59.45
Deposits > \$100,000	14.70	9.29	15.55	10.26	16.26	10.36
Escrows	1.33	0.84	1.52	1.00	1.93	1.23
Total Borrowings	29.29	18.52	27.99	18.47	29.09	18.54
Advances from FHLB	20.02	12.66	19.54	12.90	21.15	13.48
Reverse Repurchase Agreements	5.24	3.31	5.56	3.67	5.70	3.63
Other Borrowings	4.03	2.55	2.89	1.91	2.24	1.43
Other Liabilities	1.74	1.10	1.91	1.26	2.01	1.28
<b>EQUITY CAPITAL</b>	13.38	8.46	13.86	9.15	14.34	9.14
	DECEMBER 1996		SEPTEMBER 1997		DECEMBER 1997	
	(\$)	% of Avg. Assets (*)	(\$)	% of Avg. Assets (*)	(\$)	% of Avg. Assets (*)
<b>INCOME AND EXPENSE DATA</b>						
Interest Income	2.87	7.31	2.76	7.34	2.87	7.46
Interest Expense	1.74	4.42	1.67	4.45	1.75	4.55
Net Interest Income	1.13	2.88	1.09	2.89	1.12	2.90
Loss Provisions-Interest Bearing Assets	0.07	0.17	0.08	0.21	0.15	0.39
Noninterest Income	0.40	1.02	0.39	1.05	0.46	1.20
Mortgage Loan Servicing Fees	0.04	0.10	0.03	0.09	0.02	0.06
Other Fees and Charges	0.13	0.34	0.15	0.40	0.16	0.42
Other Noninterest Income	0.23	0.58	0.21	0.56	0.28	0.72
Noninterest Expense	0.85	2.16	0.81	2.15	1.00	2.60
G&A Expense	0.81	2.06	0.76	2.02	0.95	2.46
Goodwill Expense	0.04	0.10	0.05	0.13	0.05	0.14
Loss Provis.-Nonint. Bearing Assets	0.00	0.00	0.00	0.00	0.00	0.00
Income Before Taxes & Extraord. Items	0.62	1.57	0.59	1.58	0.43	1.11
Income Taxes	0.20	0.52	0.21	0.57	0.18	0.47
Extraordinary Items	0.00	0.00	0.00	0.00	0.00	0.00
Net Income	0.41	1.05	0.38	1.01	0.25	0.64

\* Annualized.  
Beginning in 1997, detailed asset categories are reported net of specific valuation allowances, loans in process, and unamortized yield adjustments.  
Numbers may not sum due to rounding.  
With the exception of regulatory capital measures, all data prior to June 1996 are unconsolidated.



Table 9  
The OTS-Regulated Thrift Industry  
Selected Indicators  
(Dollars in Billions)

## MIDWEST REGION

		1993	1994	1995	1996	ADJ 1996 (1)	1997	3-MONTHS ENDED	
								SEP 1997	DEC 1997
<b>SUMMARY DATA:</b>									
Number of Thrifts	(#)	341	320	302	282		256	264	256
Total Assets	(\$)	111.45	121.52	124.03	124.57		91.94	93.95	91.94
Net Income	(\$)	1.49	0.80	1.24	1.45	1.80	0.95	0.15	0.28
Profits	(\$)	1.55	1.07	1.27	1.62		1.10	0.25	0.28
Losses	(\$)	-0.06	-0.27	-0.03	-0.16		-0.15	-0.10	-0.01
<b>PROFITABILITY MEASURES:</b>									
Return on Average Assets	(%)	1.33	0.71	1.00	1.14	1.42	0.98	0.64	1.20
Median Ratio	(%)	1.09	0.85	0.77	0.46	0.80	0.81	0.86	0.78
Return on Average Equity	(%)	18.58	9.20	12.98	14.00	17.32	11.42	7.38	13.79
Median Ratio	(%)	13.87	9.32	7.84	4.66	7.99	8.10	8.49	7.82
Net Interest Income	(\$)	3.11	3.05	3.19	3.47		2.79	0.67	0.64
% of Average Assets	(%)	2.78	2.70	2.58	2.73		2.85	2.88	2.79
Total Fee Income	(\$)	0.42	0.53	0.64	0.83		0.70	0.17	0.18
% of Average Assets	(%)	0.43	0.50	0.54	0.73		0.77	0.74	0.77
G&A Expense	(\$)	2.37	2.40	2.46	3.22	2.69	2.10	0.52	0.51
% of Average Assets	(%)	2.12	2.12	1.99	2.54	2.12	2.15	2.21	2.22
<b>CAPITAL MEASURES:</b>									
Equity Capital Ratio	(%)	7.52	7.44	8.05	8.42		8.76	8.72	8.76
Tier 1 Leverage Ratio	(%)	7.12	7.07	7.46	7.71		8.35	8.31	8.35
Risk-based Capital Ratio	(%)	16.34	15.29	15.47	15.30		15.66	15.85	15.66
Thrifts by FDICIA Capital Categories:									
Well-Capitalized	(#)	319	300	297	275		248	258	248
Adequately Capitalized	(#)	20	20	4	7		8	6	8
Undercapitalized	(#)	2	0	1	0		0	0	0
Significantly Undercapitalized	(#)	0	0	0	0		0	0	0
Critically Undercapitalized	(#)	0	0	0	0		0	0	0
<b>FAILED/PROBLEM THRIFTS:</b>									
Failed Thrifts	(#)	2	0	0	0		0	0	0
Problem Thrifts	(#)	18	7	6	3		1	2	1
Problem Thrift Assets	(\$)	3.85	0.49	0.33	0.13		0.01	0.03	0.01
Problem Thrift Assets as a % of Total Assets	(%)	3.45	0.41	0.27	0.11		0.02	0.03	0.02
<b>ASSET QUALITY MEASURES:</b>									
Troubled Assets (2)	(\$)	1.89	1.32	1.09	1.03		0.64	0.67	0.64
% of Total Assets	(%)	1.69	1.09	0.88	0.83		0.70	0.71	0.70
Noncurrent Loans	(\$)	0.55	0.69	0.73	0.74		0.46	0.45	0.46
% of Total Assets	(%)	0.49	0.57	0.59	0.59		0.50	0.48	0.50
Noncurrent Loans as a % of Loan Type:									
1-4 Family Mortgages	(%)	0.73	0.92	0.95	0.97		0.69	0.70	0.69
Multifamily Loans	(%)	1.98	1.14	0.99	0.83		0.46	0.51	0.46
Commercial Loans	(%)	2.24	1.34	1.71	0.95		1.28	1.30	1.28
Consumer Loans	(%)	0.41	0.40	0.41	0.65		0.84	0.68	0.84
<b>1-4 FAMILY MORTGAGE LOAN ACTIVITY:</b>									
Originations	(\$)	26.88	17.42	16.22	21.84		19.23	4.76	5.00
Purchases	(\$)	17.45	14.17	11.12	14.77		11.98	3.74	2.74
Sales	(\$)	29.24	18.74	12.65	21.41		16.98	5.23	4.29
Loans Outstanding (3)	(\$)	42.27	49.95	54.47	54.11		40.59	41.79	40.59
Loans Outstanding as a % of Total Assets (3)	(%)	37.93	41.11	43.92	43.44		44.14	44.48	44.14

(1) Excludes the SAIF special assessment.

(2) Data after 1995 are net of specific valuation allowances.

(3) Does not include Mortgage Backed Securities.

Numbers may not sum due to rounding. With the exception of regulatory capital measures, all data prior to June 1996 are unconsolidated.



Table 10  
The OTS-Regulated Thrift Industry  
Aggregate Financial Condition and Income Data  
(Dollars in Billions)

MIDWEST REGION

	DECEMBER 1996		SEPTEMBER 1997		DECEMBER 1997	
	(\$)	% of Total Assets	(\$)	% of Total Assets	(\$)	% of Total Assets
TOTAL ASSETS	124.57	100.00	93.95	100.00	91.94	100.00
1-4 Family Mortgages	54.11	43.44	41.79	44.48	40.59	44.14
Mortgage Pool Securities	21.89	17.57	14.19	15.10	12.70	13.81
Multifamily Mortgages	4.75	3.81	2.21	2.35	2.29	2.49
Nonresidential Mortgages	6.18	4.96	3.68	3.91	3.61	3.92
Construction Loans	5.02	4.03	3.33	3.55	3.30	3.59
Land Loans	0.58	0.46	0.58	0.62	0.59	0.64
Commercial Loans	1.92	1.54	1.75	1.86	1.80	1.96
Consumer Loans	12.05	9.67	10.36	11.03	10.09	10.97
Cash and Noninterest-Earning Deposits	1.51	1.21	1.13	1.20	1.08	1.18
Investment Securities	13.73	11.02	10.37	11.04	10.77	11.72
Mortgage Derivatives	5.77	4.63	4.03	4.29	3.46	3.77
Reposessed Assets, Net	0.29	0.23	0.21	0.22	0.18	0.19
Real Estate Held for Investment	0.05	0.04	0.04	0.04	0.04	0.04
Office Premises & Equipment	1.24	0.99	1.04	1.11	1.00	1.08
Other Assets	5.72	4.59	3.86	4.11	4.46	4.85
Less: Contra Assets & Valuation Allowances	4.46	3.58	0.58	0.61	0.54	0.59
TOTAL LIABILITIES AND CAPITAL	124.57	100.00	93.95	100.00	91.94	100.00
Total Deposits	76.82	61.67	59.38	63.21	58.47	63.59
Deposits < or = to \$100,000	67.77	54.40	51.73	55.06	50.20	54.60
Deposits > \$100,000	9.05	7.26	7.65	8.14	8.27	8.99
Escrows	2.12	1.70	1.86	1.98	1.69	1.84
Total Borrowings	33.78	27.12	23.43	24.94	22.68	24.67
Advances from FHLB	20.84	16.73	14.09	15.00	15.00	16.31
Reverse Repurchase Agreements	8.47	6.80	5.89	6.27	4.74	5.15
Other Borrowings	4.46	3.58	3.45	3.67	2.94	3.20
Other Liabilities	1.37	1.10	1.08	1.15	1.05	1.14
EQUITY CAPITAL	10.49	8.42	8.19	8.72	8.05	8.76
	DECEMBER 1996		SEPTEMBER 1997		DECEMBER 1997	
	(\$)	% of Avg. Assets (*)	(\$)	% of Avg. Assets (*)	(\$)	% of Avg. Assets (*)
INCOME AND EXPENSE DATA						
Interest Income	2.30	7.35	1.76	7.52	1.70	7.43
Interest Expense	1.42	4.55	1.08	4.64	1.06	4.64
Net Interest Income	0.88	2.80	0.67	2.88	0.64	2.79
Loss Provisions-Interest Bearing Assets	0.08	0.25	0.08	0.33	0.04	0.18
Noninterest Income	0.31	0.99	0.15	0.66	0.31	1.37
Mortgage Loan Servicing Fees	0.08	0.24	0.05	0.20	0.05	0.20
Other Fees and Charges	0.15	0.49	0.13	0.54	0.13	0.57
Other Noninterest Income	0.08	0.26	-0.02	-0.09	0.14	0.59
Noninterest Expense	0.72	2.31	0.53	2.29	0.52	2.29
G&A Expense	0.69	2.22	0.52	2.21	0.51	2.22
Goodwill Expense	0.02	0.05	0.01	0.04	0.01	0.04
Loss Provis.-Nonint. Bearing Assets	0.01	0.05	0.01	0.03	0.01	0.04
Income Before Taxes & Extraord. Items	0.38	1.22	0.21	0.92	0.38	1.67
Income Taxes	0.11	0.36	0.06	0.28	0.11	0.47
Extraordinary Items	0.00	0.00	0.00	0.00	0.00	0.00
Net Income	0.27	0.87	0.15	0.64	0.28	1.20

\* Annualized.  
Beginning in 1997, detailed asset categories are reported net of specific valuation allowances, loans in process, and unamortized yield adjustments.  
Numbers may not sum due to rounding.  
With the exception of regulatory capital measures, all data prior to June 1996 are unconsolidated.



## Highlights of the Thrift Industry

Table 11  
The OTS-Regulated Thrift Industry  
Selected Indicators  
(Dollars in Billions)

WEST REGION

		1993	1994	1995	1996	ADJ 1996 (1)	1997	3-MONTHS ENDED SEP 1997	DEC 1997
<b>SUMMARY DATA:</b>									
Number of Thrifts	(#)	153	141	128	114		102	107	102
Total Assets	(\$)	298.19	296.70	276.60	285.09		311.36	308.42	311.36
Net Income	(\$)	0.92	0.68	1.23	0.88	1.64	2.23	0.35	0.69
Profits	(\$)	1.75	1.70	1.62	1.46		2.45	0.53	0.69
Losses	(\$)	-0.84	-1.02	-0.39	-0.58		-0.22	-0.18	0.00
<b>PROFITABILITY MEASURES:</b>									
Return on Average Assets	(%)	0.30	0.23	0.43	0.32	0.59	0.73	0.45	0.89
Median Ratio	(%)	0.69	0.46	0.45	0.32	0.58	0.73	0.78	0.83
Return on Average Equity	(%)	4.34	3.26	6.24	4.49	8.40	10.24	6.33	12.33
Median Ratio	(%)	9.49	5.90	5.61	3.79	7.78	9.32	9.58	9.03
Net Interest Income	(\$)	8.79	8.15	6.95	7.47		8.15	2.02	2.06
% of Average Assets	(%)	2.90	2.74	2.43	2.71		2.67	2.64	2.66
Total Fee Income	(\$)	1.04	0.96	0.83	1.06		1.60	0.39	0.41
% of Average Assets	(%)	0.36	0.30	0.29	0.42		0.53	0.51	0.53
G&A Expense	(\$)	6.31	6.28	5.16	6.68	5.50	5.78	1.63	1.43
% of Average Assets	(%)	2.08	2.11	1.80	2.42	1.99	1.89	2.13	1.84
<b>CAPITAL MEASURES:</b>									
Equity Capital Ratio	(%)	7.15	6.66	7.09	6.99		7.27	7.15	7.27
Tier 1 Leverage Ratio	(%)	6.50	6.21	6.51	6.52		6.66	6.54	6.66
Risk-based Capital Ratio	(%)	12.72	12.55	12.73	12.45		12.78	12.57	12.78
Thrifts by FDICIA Capital Categories:									
Well-Capitalized	(#)	123	113	112	104		100	105	100
Adequately Capitalized	(#)	28	22	13	10		2	2	2
Undercapitalized	(#)	1	2	2	0		0	0	0
Significantly Undercapitalized	(#)	1	3	1	0		0	0	0
Critically Undercapitalized	(#)	0	1	0	0		0	0	0
<b>FAILED/PROBLEM THRIFTS:</b>									
Failed Thrifts	(#)	5	2	1	1		0	0	0
Problem Thrifts	(#)	21	19	14	10		5	6	5
Problem Thrift Assets	(\$)	41.40	25.69	7.92	3.72		0.75	0.74	0.75
Problem Thrift Assets as a % of Total Assets	(%)	13.89	8.66	2.87	1.30		0.24	0.24	0.24
<b>ASSET QUALITY MEASURES:</b>									
Troubled Assets (2)	(\$)	8.02	5.12	4.55	3.81		3.16	3.43	3.16
% of Total Assets	(%)	2.69	1.72	1.65	1.34		1.02	1.11	1.02
Noncurrent Loans	(\$)	5.31	3.54	3.23	2.81		2.33	2.51	2.33
% of Total Assets	(%)	1.78	1.19	1.17	0.99		0.75	0.81	0.75
Noncurrent Loans as a % of Loan Type:									
1-4 Family Mortgages	(%)	1.96	1.49	1.68	1.42		1.12	1.20	1.12
Multifamily Loans	(%)	3.16	1.92	1.69	1.10		0.49	0.56	0.49
Commercial Loans	(%)	2.94	1.52	0.43	0.57		0.73	0.74	0.73
Consumer Loans	(%)	1.10	0.99	0.64	0.57		0.59	0.51	0.59
<b>1-4 FAMILY MORTGAGE LOAN ACTIVITY:</b>									
Originations	(\$)	75.11	60.80	39.64	45.50		57.35	15.42	16.04
Purchases	(\$)	16.05	10.68	7.54	14.94		22.62	6.52	6.06
Sales	(\$)	56.22	40.84	31.55	27.39		40.05	9.16	14.33
Loans Outstanding (3)	(\$)	151.76	152.60	139.15	155.92		171.06	170.92	171.06
Loans Outstanding as a % of Total Assets (3)	(%)	50.89	51.43	50.31	54.69		54.94	55.42	54.94

(1) Excludes the SAIF special assessment.

(2) Data after 1995 are net of specific valuation allowances.

(3) Does not include Mortgage Backed Securities.

Numbers may not sum due to rounding. With the exception of regulatory capital measures, all data prior to June 1996 are unconsolidated.

Table 12  
The OTS-Regulated Thrift Industry  
Aggregate Financial Condition and Income Data  
(Dollars in Billions)

WEST REGION

	DECEMBER 1996		SEPTEMBER 1997		DECEMBER 1997	
	(\$)	% of Total Assets	(\$)	% of Total Assets	(\$)	% of Total Assets
<b>TOTAL ASSETS</b>	285.09	100.00	308.42	100.00	311.36	100.00
1-4 Family Mortgages	155.92	54.69	170.92	55.42	171.06	54.94
Mortgage Pool Securities	40.93	14.36	44.68	14.49	46.42	14.91
Multifamily Mortgages	30.76	10.79	32.80	10.64	32.46	10.42
Nonresidential Mortgages	10.50	3.68	10.67	3.46	10.54	3.38
Construction Loans	2.71	0.95	1.49	0.48	1.54	0.50
Land Loans	0.66	0.23	0.53	0.17	0.53	0.17
Commercial Loans	2.37	0.83	3.02	0.98	3.10	0.99
Consumer Loans	6.31	2.21	8.25	2.68	8.66	2.78
Cash and Noninterest-Earning Deposits	3.91	1.37	3.50	1.13	4.18	1.34
Investment Securities	21.14	7.42	18.54	6.01	18.87	6.06
Mortgage Derivatives	9.25	3.24	8.91	2.89	9.30	2.99
Reposessed Assets, Net	1.00	0.35	0.92	0.30	0.83	0.27
Real Estate Held for Investment	0.17	0.06	0.16	0.05	0.15	0.05
Office Premises & Equipment	2.76	0.97	2.72	0.88	2.68	0.86
Other Assets	10.11	3.54	12.71	4.12	12.89	4.14
Less: Contra Assets & Valuation Allowances	4.14	1.45	2.48	0.80	2.55	0.82
<b>TOTAL LIABILITIES AND CAPITAL</b>	285.09	100.00	308.42	100.00	311.36	100.00
Total Deposits	185.04	64.91	188.98	61.28	189.26	60.78
Deposits < or = to \$100,000	153.82	53.96	154.46	50.08	153.36	49.25
Deposits > \$100,000	31.22	10.95	34.53	11.19	35.90	11.53
Escrows	1.73	0.61	3.27	1.06	3.06	0.98
Total Borrowings	74.96	26.29	89.32	28.96	91.39	29.35
Advances from FHLB	40.04	14.04	48.41	15.69	54.22	17.41
Reverse Repurchase Agreements	16.38	5.75	19.40	6.29	17.99	5.78
Other Borrowings	18.54	6.50	21.52	6.98	19.19	6.16
Other Liabilities	3.42	1.20	4.80	1.56	5.01	1.61
<b>EQUITY CAPITAL</b>	19.94	6.99	22.05	7.15	22.65	7.27
	DECEMBER 1996		SEPTEMBER 1997		DECEMBER 1997	
	(\$)	% of Avg. Assets (*)	(\$)	% of Avg. Assets (*)	(\$)	% of Avg. Assets (*)
<b>INCOME AND EXPENSE DATA</b>						
Interest Income	5.03	7.08	5.48	7.15	5.58	7.20
Interest Expense	3.13	4.42	3.46	4.51	3.51	4.54
Net Interest Income	1.89	2.67	2.02	2.64	2.06	2.66
Loss Provisions-Interest Bearing Assets	0.43	0.60	0.19	0.25	0.16	0.21
Noninterest Income	0.58	0.81	0.43	0.56	0.70	0.91
Mortgage Loan Servicing Fees	0.07	0.10	0.07	0.10	0.08	0.11
Other Fees and Charges	0.23	0.32	0.32	0.42	0.33	0.42
Other Noninterest Income	0.28	0.39	0.04	0.05	0.29	0.38
Noninterest Expense	1.59	2.24	1.70	2.22	1.49	1.92
G&A Expense	1.54	2.16	1.63	2.13	1.43	1.84
Goodwill Expense	0.03	0.05	0.05	0.06	0.04	0.06
Loss Provis.-Nonint. Bearing Assets	0.02	0.03	0.02	0.02	0.02	0.03
Income Before Taxes & Extraord. Items	0.45	0.63	0.57	0.74	1.11	1.44
Income Taxes	0.10	0.15	0.22	0.29	0.42	0.55
Extraordinary Items	0.00	0.00	0.00	0.00	0.00	0.00
Net Income	0.35	0.49	0.35	0.45	0.69	0.89

\* Annualized.  
Beginning in 1997, detailed asset categories are reported net of specific valuation allowances, loans in process, and unamortized yield adjustments.  
Numbers may not sum due to rounding.  
With the exception of regulatory capital measures, all data prior to June 1996 are unconsolidated.